A Report to the Montana Legislature

Financial-Compliance Audit

Montana Board of Investments

For the Fiscal Year Ended June 30, 2016

January 2017

Legislative Audit Division

16-04A

Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

Legislative Audit Committee

Members serve until a member's legislative term of office ends or until a successor is appointed, whichever occurs first.

§5-13-202(2), MCA

Fraud Hotline
(Statewide)
1-800-222-4446
(in Helena)
444-4446
ladhotline@mt.gov

Audit Staff

John Fine
Nolan Preeshl
Shenae Stensaas
Natalie H. Gibson
Karen E. Simpson

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

January 2017

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report of the Montana Board of Investments (board) for the fiscal year ended June 30, 2016. We performed this audit of the board in compliance with the Montana Constitution and state law. Our audit work included analyzing the financial statements, examining the underlying transactions, and testing the board's compliance with selected state laws and regulations.

Included in this report are financial statements of the board's Consolidated Unified Investment Program and Enterprise Fund Program. We issued unmodified opinions on the financial statements for these programs. This report does not contain any recommendations.

We thank the members of the board and their staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

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Appointed and Administrative Officials

			Term Expires January 1
Montana Board of Investments	Mark Noennig, Chairman	Billings	2017
	Karl Englund, Vice Chair	Missoula	2019
	Kathy Bessette	Havre	2017
	Teresa Olcott Cohea	Helena	2019
	Quinton Nyman	Helena	2019
	Jack Prothero	Great Falls	2017
	Marilyn Ryan	Missoula	2017
	Jon Satre	Helena	2019
	Sheena Wilson	Helena	2017
	Bob Keenan	Senate Liaison	
	Kelly McCarthy	House of Representatives Liaison	

Administrative Officials

David Ewer, Executive Director

Geri Burton, Deputy Director

Joe Cullen, Chief Investment Officer

Julie Feldman, Financial Manager

For additional information concerning the Montana Board of Investments, contact:

David Ewer, Executive Director
P.O. Box 200126
Helena, MT 59620-0126
(406) 444-0001

e-mail: dewer@mt.gov

Montana Legislative Audit Division

Financial-Compliance Audit
Montana Board of Investments
For the Fiscal Year Ended June 30, 2016

January 2017 16-04A Report Summary

The Montana Board of Investments has sole authority to invest public funds, public retirement system funds, and state compensation insurance fund assets in accordance with state law and the Montana Constitution. In addition, the board manages the investments of state agencies and certain investments of local governments, such as cities, counties, and school districts. The board managed approximately $16.7 billion of investments at June 30, 2016, and distributed approximately $555.3 million in income to participants in fiscal year 2016.

Context

Article VIII, Section 13 of the Montana Constitution requires the Legislature to provide for a Unified Investment Program (UIP) for public funds, and Section 17-6-201, MCA, requires the UIP to be administered by the Montana Board of Investments (board). To manage the UIP, the board has created seven investment pools that operate similar to mutual funds. The state's retirement systems are the only eligible participants for five of these pools. State agencies and local governments may participate in the other two pools, provided they meet the requirements for participation. At June 30, 2016, the board managed approximately $16.7 billion of investments in the UIP. The board distributed approximately $555.3 million in income to participants in fiscal year 2016.

The board also administers the state's Municipal Finance Consolidation Act (MFC) and Economic Development Bond Act (EDB) programs, known as the Enterprise Fund Program. Under the MFC, the board is authorized to issue up to $190 million in bonds. The proceeds of the Intermediate Term Capital Program (INTERCAP) bonds issued under the MFC are loaned to eligible Montana state and local governments to finance capital expenditures. The board makes firm commitments to fund loans through the INTERCAP program. At June 30, 2016, the board's outstanding commitments for INTERCAP loans were $44.1 million.

Additionally, under both the MFC and EDB programs, the board is authorized to provide governments with access to financing through the issuance of conduit (no-commitment) debt. Assets and revenues of the borrower are pledged to repay the debt. Because the board has no obligation for this debt, these bonds are not reflected on the Enterprise Fund financial statements. They are, however, disclosed in the notes. At June 30, 2016, the total conduit debt outstanding under the MFC program was $14.6 million, and there was no debt outstanding under the EDB program.

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Results

The Montana Constitution and state law require the board to be audited annually. The board issues separate financial statements for the UIP and Enterprise Fund Program. Our audit work included: analyzing the financial statements and note disclosures; examining the underlying financial activity and tying it to support from external parties, as applicable; and reviewing and testing selected control systems. We also tested the board's compliance with selected state laws and regulations.

Based on our audit work, we made no recommendations to the board.

For a complete copy of the report (16-04A) or for further information, contact the
Legislative Audit Division at 406-444-3122; e-mail to **lad@mt.gov**; or check the web site at
http://leg.mt.gov/audit
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail **ladhotline@mt.gov**.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Board of Investments (board) for the fiscal year ended June 30, 2016. The audit was performed to comply with Article VIII, Section 13 of the Montana Constitution and §§17-6-321, 17-5-1529, and 17-5-1649, MCA. The objectives of the audit were to:

1. Obtain an understanding of the board's control systems to the extent necessary to support an audit of the board's financial statements, and, if appropriate, make recommendations for improvement in management and the internal controls of the board.
2. Determine whether the board's Consolidated Unified Investment Program financial statements present fairly the net asset value/investments managed, the changes in net asset value/investments managed, and investment income and distribution for the fiscal year ended June 30, 2016, with comparative financial amounts for the fiscal year ended June 30, 2015.
3. Determine whether the board's Enterprise Fund Program financial statements present fairly the net position, changes in net position, and cash flows for the fiscal year ended June 30, 2016, with comparative financial amounts for the fiscal year ended June 30, 2015.
4. Determine compliance with selected state laws and regulations.

To audit the board's Consolidated Unified Investment Program, our audit work included comparing the investment transactions recorded by the board to the reports from the custodial bank. The custodial bank is charged with the safekeeping of investment assets. In this role, it settles purchases and sales of securities, collects information regarding the assets and the related income, and provides information and support to the board in its administration of the program. We analyzed the financial statements and examined the underlying transactions. The audit also included testing selected control systems and the board's compliance with selected state laws and regulations related to the program.

To audit the board's activity related to the Economic Development Bond and Municipal Finance Consolidated Program, known as the Enterprise Fund Program, we analyzed the financial statements and examined the underlying transactions. Our work focused on activity related to loans receivable, bonds payable, and cash and cash equivalents.

Based on our audit work we made no recommendations to the board.

Background

The board is allocated to the Department of Commerce for administrative purposes. The board employs an executive director and chief investment officer who in turn hire and manage staff. The staff members advise the board, implement board decisions, and perform daily investment, economic development, and record keeping functions.

To manage the Unified Investment Program (UIP), the board created seven investment pools that operate similar to mutual funds. The pools are: Retirement Funds Bond Pool (RFBP), Trust Funds Investment Pool (TFIP), Montana Domestic Equity Pool (MDEP), Montana International Equity Pool (MTIP), Montana Private Equity Pool (MPEP), Montana Real Estate Pool (MTRP), and Short Term Investment Pool (STIP). With the exception of STIP and TFIP, the state's retirement systems are the only eligible participants. State agencies and local governments can participate in STIP. Additionally, through the passage of Chapter 84, Section 1, Laws of 2015, local governments can participate in the long-term investments portion of the UIP if they meet the requirements of the legislation.

In addition to these pools, the board also manages direct investments in fixed income securities, equity index funds, and commercial loans for approximately 20 state agencies. Those investments are reported collectively in the board's UIP financial statements as All Other Funds.

The board administers the state's Economic Development Bond (EDB) Act and Municipal Finance Consolidation (MFC) Act programs, which comprise the Enterprise Fund Program. Under the MFC Act, the board is authorized to issue up to $190 million in bonds. The board's Intermediate Term Capital Program bonds, issued under the MFC, are used to provide loans to eligible Montana governments to finance capital expenditures for up to 15 years.

Under both the MFC and EDB Programs, the board also provides access to financing through issuance of conduit (no-commitment) debt. Assets and revenues of the borrower are pledged to repay the debt. Because the board has no obligation for this debt, these bond issues are not reflected on the board's Enterprise Fund financial statements but are disclosed in the notes.

Independent Auditor’s Report and Consolidated Unified Investment Program Financial Statements

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Statement of Net Asset Value/Investments Managed of the Montana Board of Investments' (board) Consolidated Unified Investment Program as of June 30, 2016, and 2015, the related Statement of Changes in Net Asset Value/Investments Managed, and Statement of Investment Income and Distribution for each of the fiscal years ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the net asset value/investments managed of the Montana Board of Investments' Consolidated Unified Investment Program as of June 30, 2016, and 2015, and the changes in net asset value/investments managed and investment income and distribution for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 2A to the financial statements, beginning in fiscal year 2016, the Montana Board of Investments elected to report the Short-Term Investment Pool assets at fair value instead of amortized cost, as previously reported. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the financial statements, in fiscal year 2016, the Montana Board of Investments adopted new accounting guidance contained in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. Our opinion is not modified with respect to this matter.

In fiscal year 2016, the Montana Board of Investments elected to not disclose year-end portfolio compositions in the notes to the financial statements. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 16, 2016

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT
STATEMENT OF NET ASSET VALUE/INVESTMENTS MANAGED
FOR FISCAL YEARS ENDING JUNE 30, 2016 AND 2015
(in thousands)

Assets	2016	2015
Investments at fair value (Note 2B, 7)	$ 13,923,262	$ 13,924,575
STIP investment portfolio at fair value/amortized cost (Note 2B)*	2,823,099	2,538,469
Cash (Note 6)	9,655	4,627
Security lending cash collateral (Note 5)	365,212	620,221
Security lending income receivable	345	335
Broker receivable for securities sold but not settled (Note 2A)	35,779	46,073
Dividend and interest receivable	42,673	43,048
Currency forward contracts (Note 6)	$ -	$ 151
Total assets (Note 2C)	$ 17,200,025	$ 17,177,499
Liabilities		
Income due participants (Note 2F)	$ 20,930	$ 20,510
Broker payable for securities purchased but not settled (Note 2A)	58,356	26,477
Security lending obligations (Note 5)	365,212	620,221
Security lending expense payable	140	77
Other payables	263	369
Administrative fee payable	3,491	3,553
STIP reserve (Note 8)	$ 13,143	$ 28,591
Total liabilities (Note 2C)	$ 461,535	$ 699,798
Net asset value/investments managed (Note 2C)	$ 16,738,490	$ 16,477,701

The accompanying notes are an integral part of these financial statements.

** The STIP portfolio is recorded at fair value in Fiscal Year 2016 and at amortized cost in Fiscal Year 2015.*

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

STATEMENT OF CHANGES IN NET ASSET VALUE/INVESTMENTS MANAGED
FOR FISCAL YEARS ENDING JUNE 30, 2016 AND 2015
(in thousands)

	2016	2015
Net asset value/investments, beginning of year	$ 16,477,701	$ 16,097,112
Value of pool units/investments purchased (Note 2E)	12,919,993	11,277,155
Value of pool units/investments sold/matured (Note 2E)	(12,503,303)	(11,022,133)
Increase (decrease) in AOF interest receivable	367	(364)
Increase (decrease) in AOF security lending income receivable	(17)	(15)
(Increase) decrease in AOF broker payable	(5,079)	-
(Increase) decrease in AOF security lending expense payable	2	(8)
(Increase) decrease in STIP included in investment pools (Note 2E)	(30,967)	(1,250)
Changes in current value of investments managed (Note 2E)	$ (120,207)	$ 127,204
Net asset value/investments, end of year (Note 2C)	$ 16,738,490	$ 16,477,701

STATEMENT OF INVESTMENT INCOME AND DISTRIBUTION
FOR FISCAL YEARS ENDED JUNE 30, 2016 AND 2015
(in thousands)

	2016	2015
Income due participants, beginning of year	$ 20,510	$ 17,532
Distributable net realized gain/(loss) (Note 2F)	299,669	189,537
Dividend/interest income (Note 2F)	317,207	318,613
Amortization/accretion (Note 2F)	3,986	2,514
Security lending income (Note 5)	3,917	3,848
Other income (Note 8)	5,209	394
Security lending expense (Note 5)	(1,244)	(778)
Security lending collateral sale gain/(loss) (Note 5)	-	(226)
Administrative expenses (Note 2G)	(52,612)	(50,745)
Other investment expenses	(12,259)	(8,898)
STIP reserve expense (Note 8)	$ (8,137)	$ (4,151)
Income available for distribution (Note 2F)	576,246	467,640
Distribution (Note 2F)	$ (555,316)	$ (447,130)
Income due participants, end of year (Note 2F)	$ 20,930	$ 20,510

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

1. HISTORY AND ORGANIZATION

The Board was created by the Legislature to manage the Unified Investment Program established by the State Constitution. The Investment Program is comprised of state funds, including pensions, trusts, insurance, and cash. Local government entities can by statute only voluntarily invest in the Short Term Investment Pool. With a qualifying event, local government entities may also by statute invest in the long-term investment portion of the Program. The Board manages the Investment Program pursuant to the "Prudent Expert Principle" mandated by State law, which requires an investment manager to:

(a) discharge the duties with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity with the same resources and familiar with like matters exercises in the conduct of an enterprise of a like character with like aims;
(b) diversify the holdings of each fund within the unified investment program to minimize the risk of loss and to maximize the rate of return unless, under the circumstances, it is clearly prudent not to do so; and
(c) discharge the duties solely in the interest of and for the benefit of the funds forming the unified investment program.

Currently, only the nine retirement funds and the Montana State Fund (Workers' Compensation) may invest in public corporate capital stock. All other state funds must be invested in fixed-income type investments. Neither State law nor the State Constitution place restrictions on retirement fund investments. The funds are invested solely at the discretion of the Board pursuant to the "Prudent Expert Principle."

To facilitate management of the Investment Program, the Board created seven investment pools (Pools) that operate similar to mutual funds. All state agencies and many local government entities may participate in one or more Pools. By investing in large Pools with other participants the smaller participants are provided broad diversification not otherwise possible. Some Pools are dedicated solely to the state's nine retirement funds, while others are open to other state and local government funds. State agencies, ineligible to participate in a long-term investment pool, have direct fixed income, equity and loan investments. These investments are combined and reported as All Other Funds (AOF) Investments Managed. The Pools, AOF Investments Managed, Pool creation date and eligible state participants are shown in the following table as of June 30, 2016.

Pool/Investments Managed Name	Creation Date	Eligible Participants
Retirement Fund Bond Pool (RFBP)	04/01/95	Nine Retirement Funds Only
Trust Funds Investment Pool (TFIP)	10/01/95	Various State Trust Funds
Montana Domestic Equity Pool (MDEP)	07/01/80	Nine Retirement Funds Only
Montana International Equity Pool (MTIP)	06/01/96	Nine Retirement Funds Only
Montana Private Equity Pool (MPEP)	05/01/02	Nine Retirement Funds Only
Montana Real Estate Pool (MTRP)	06/01/06	Nine Retirement Funds Only
Short Term Investment Pool (STIP)	07/01/74	All State Funds/Local Governments
All Other Funds (AOF) Investments Managed	N/A	Non-Pool State Agency Investments

For the year ended June 30, 2015, the eligible participants within MDEP were the nine retirement funds and two small trusts. During fiscal year 2016, the MDEP small trusts were moved into either the TFIP or the STIP.

These financial statements present only the activity of the Unified Investment Program as managed by the Board. The financial statements do not present the financial position or the results of operations of the Board. The financial information pertaining to the operations of the Board can be found in the Investment Division internal service fund

contained within the State of Montana's Comprehensive Annual Financial Report and in the Enterprise fund financial statements contained within this report.

These financial statements include the activity for State Fund within AOF on a June 30, 2016 basis. State Fund, a discretely presented component unit of the State of Montana, by statute prepares separately issued financial statements on a December 31st basis.

New Accounting Guidance Implemented - For the year ended June 30, 2016 and 2015, the Board implemented GASB Statement 72, Fair Value Measurement and Application (GASB 72). This Statement addresses accounting and financial reporting issues related to fair value measurement. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Valuation and Timing – The value of stocks and bonds are recorded at both "book" and "fair" value. The book or carrying value of a stock is the average cost of the shares held. If the same stock has been purchased several times, the average of the purchase prices is the book value. The book value of bonds is the "amortized" cost, which represents the original cost, adjusted for premium and discount amortization where applicable. If bonds are purchased at more than the par value, the difference is called a premium. If they are purchased for less than par value, the difference is called a discount. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life, or maturity date of the securities. The fair value of publicly traded stocks and bonds is determined by reference to market prices supplied by State Street Bank (the custodial bank). Because a public market does not exist for private equity and real estate investments, the fair value of these investments is the value reported in the most recent external managers' valuation reports. The book or carrying value of these private investments is the capital invested less capital returned. For June 30, 2016, all investment portfolios presented in the Statement of Net Asset Value are at "fair" value. The proposal for GASB Statement 79 – Certain External Investment Pools and Pool Participants required the Board to elect between accounting for STIP assets in one of two allowable methods: either to continue to account for securities within the STIP pool at an amortized cost basis or change to a fair value basis. In October 2015, staff recommended and the Board approved that the STIP portfolio for financial reporting purposes would be on a fair value basis. Based on this allowable election, the Board implemented GASB Statement 79 as it pertained to recording on a fair value basis. For June 30, 2015, all investment portfolios presented in the Statement of Net Asset Value are at "fair" value, except for the STIP which is reported at amortized cost.

Accounting for stock and bond securities is based on the "trade date" rather than the "settlement" date. This results in a purchased security included in the investment portfolio on the trade date even though payment will not occur until the settlement date. Conversely, a security sold will be eliminated from the investment portfolio on the trade date even though the sale proceeds will not be received until the settlement date. "Receivables" and "payables" for securities sold/purchased but not yet settled are reported in the financial statement and calculated in the Net Asset Value. Private equity and real estate investments are included in the portfolio when funds are wired.

Currency exposures may be hedged, in a defensive manner, at the discretion of the active managers to preserve the U.S. dollar value of investments made. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments.

B. Investment Portfolio Value - For the period ended June 30, 2016, the STIP portfolio is shown in the Statement of Net Asset Value at fair value. For the period ended June 30, 2015, the STIP portfolio is shown in the Statement of Net Asset Value at amortized cost or "book" value. The RFBP, TFIP and MTRP participate in STIP. The All Other Funds (AOF) Investments Managed represent direct investments by approximately 20 state agencies in a combination of either fixed income securities, equity index funds, residential mortgages or commercial loans. These state agencies do not buy or sell participant units based on a NAV calculation for their AOF Investments Managed. The real estate buildings and pension residential mortgages are included in the MTRP and RFBP portfolios. The book value and fair value and AOF Investments managed are shown in the following table.

June 30, 2016 Investment Portfolio Value
(in thousands)

Pool		Book Value		Fair Value
Retirement Funds Bond Pool (RFBP)	$	2,279,159	$	2,372,717
Trust Funds Investment Pool (TFIP)		2,161,265		2,344,489
Montana Domestic Equity Pool (MDEP)		2,527,530		3,778,004
Montana International Equity Pool (MTIP)		1,412,249		1,544,017
Montana Private Equity Pool (MPEP)		1,043,178		1,116,761
Montana Real Estate Pool (MTRP)		789,833		925,217
All Other Funds (AOF) Investments Managed		1,777,962		1,936,322
STIP included in investment pools	$	(94,246)	$	(94,265)
Total Investments	$	11,896,930	$	13,923,262
Short Term Investment Pool (STIP) *	$	2,822,517	$	2,823,099
Total	$	14,719,447	$	16,746,361

June 30, 2015 Investment Portfolio Value
(in thousands)

Pool		Book Value		Fair Value *
Retirement Funds Bond Pool (RFBP)	$	2,202,707	$	2,220,321
Trust Funds Investment Pool (TFIP)		2,137,529		2,255,336
Montana Domestic Equity Pool (MDEP)		2,586,532		3,983,061
Montana International Equity Pool (MTIP)		1,384,595		1,667,787
Montana Private Equity Pool (MPEP)		961,696		1,075,838
Montana Real Estate Pool (MTRP)		787,262		891,291
All Other Funds (AOF) Investments Managed		1,752,271		1,894,239
STIP included in investment pools	$	(63,298)	$	(63,298)
Total Investments	$	11,749,294	$	13,924,575
Short Term Investment Pool (STIP)*	$	2,538,469	$	2,538,469
Total	$	14,287,763	$	16,463,044

** The STIP portfolio is recorded at fair value for FY16 and amortized cost for FY15 in the Fair Value column.*

C. Assets, liabilities and NAV/Investment Managed - The following table shows the individual Pool and AOF assets, liabilities, and NAV/Investments Managed. The NAV must include the fair value of the investment portfolio (except for STIP at book value for the June 30, 2015 fiscal year) and any liabilities payable by the Pool and receivables due the Pool on the NAV calculation date. Investment accounting uses the "accrual" basis, which means bond interest due is recorded when earned, rather than when cash is received. Interest "due" is recorded as a receivable (asset) and included in the NAV on the date of the calculation. Dividends are recorded as of "ex-dividend date." Income due to Pool participants is recorded on the date due to the participants, rather than on actual distribution date. Income Due Participants is a payable (liability) and included in the NAV on the calculation date. The effect of assets and liabilities on the Pool NAV is depicted in the following table. The difference between Pool investment portfolios at fair value and the NAV is the net of other assets and liabilities. The total investment NAV as reported reflects the elimination of other pool participation in STIP.

Included in the Pool and Investments Managed assets are the value of the investment portfolios, cash, receivables for securities sold but not yet settled, and dividend/interest receivables. Included in the liabilities are payables for securities purchased but not yet settled, income due participants, and other miscellaneous payables. The "securities lending" asset/liability shown in the Statement of Net Asset Value/Investments Managed nets to zero and has no "net" effect on the Pool NAV and AOF Investments Managed.

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STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

2016 Assets, Liabilities and Net Asset Value (NAV)/Investments Managed (IM)
(in thousands)

Pool	Assets	Liabilities	NAV/IM
Retirement Funds Bond Pool (RFBP)	$ 2,486,485	$ 123,400	$ 2,363,085
Trust Funds Investment Pool (TFIP)	2,385,124	33,686	2,351,438
Montana Domestic Equity Pool (MDEP)	3,964,269	188,272	3,775,997
Montana International Equity Pool (MTIP)	1,577,074	32,161	1,544,913
Montana Private Equity Pool (MPEP)	1,116,792	400	1,116,392
Montana Real Estate Pool (MTRP)	928,436	3,822	924,614
All Other Funds (AOF) Investments Managed	1,999,263	53,504	1,945,759
STIP included in investment pools	$ (94,265)	$ -	$ (94,265)
Total Investments	$ 14,363,178	$ 435,245	$ 13,927,933
Short Term Investment Pool (STIP)	$ 2,836,847	$ 26,290	$ 2,810,557
Total	$ 17,200,025	$ 461,535	$ 16,738,490

2015 Assets, Liabilities and Net Asset Value (NAV)/Investments Managed (IM)
(in thousands)

Pool	Assets	Liabilities	NAV/IM
Retirement Funds Bond Pool (RFBP)	$ 2,419,805	$ 174,508	$ 2,245,297
Trust Funds Investment Pool (TFIP)	2,364,684	108,449	2,256,235
Montana Domestic Equity Pool (MDEP)	4,210,794	218,825	3,991,969
Montana International Equity Pool (MTIP)	1,691,906	22,864	1,669,042
Montana Private Equity Pool (MPEP)	1,075,839	411	1,075,428
Montana Real Estate Pool (MTRP)	892,335	4,710	887,625
All Other Funds (AOF) Investments Managed	2,039,805	135,225	1,904,580
STIP included in investment pools	$ (63,298)	$ -	$ (63,298)
Total Investments	$ 14,631,870	$ 664,992	$ 13,966,878
Short Term Investment Pool (STIP)	$ 2,545,629	$ 34,806	$ 2,510,823
Total	$ 17,177,499	$ 699,798	$ 16,477,701

D. Pool Participant Units – Pool units are purchased and sold similar to individuals investing in mutual funds. The STIP participants purchase and sell units, at $1 per unit, at their discretion. All non-STIP Pool units and AOF direct investments are purchased and sold at the discretion of Board investment staff based on asset allocations approved by the Board. For non-STIP Pool participants to purchase and sell units, the units must be "priced." Once the Pool NAV is calculated, the unit value is priced by dividing the NAV by the number of outstanding units. The unit value is then used when units are purchased or sold. Like securities, Pool units also have a "book" value, which is the price of the unit when it was purchased. The book value does not change unless the participant purchases additional units at different prices. Because the treatment of the Pool units is similar to individual mutual funds and the AOF Investments Managed is not an investment Pool, there is no Units Outstanding or a Unit Value calculated on a consolidated financial statement basis. The calculations for individual Pool unit values are shown in the following table.

2016 NAV/IM - Units Outstanding - Unit Value
(in thousands)

Pool Name		NAV/IM	Units Outstanding		Unit Value*
Retirement Funds Bond Pool (RFBP)	$	2,363,085	20,504	$	115.25
Trust Funds Investment Pool (TFIP)		2,351,438	21,428		109.74
Montana Domestic Equity Pool (MDEP)		3,775,997	14,727		256.40
Montana International Equity Pool (MTIP)		1,544,913	9,890		156.21
Montana Private Equity Pool (MPEP)		1,116,392	3,519		317.25
Montana Real Estate Pool (MTRP)		924,614	8,487		108.94
All Other Funds (AOF) Investments Managed		1,945,759	NA		NA
Short Term Investment Pool (STIP)**		2,810,557	2,809,975		1.00
STIP included in investment pools	$	(94,265)	NA		NA
Total	$	16,738,490			

2015 NAV/IM - Units Outstanding - Unit Value
(in thousands)

Pool Name		NAV/IM	Units Outstanding		Unit Value*
Retirement Funds Bond Pool (RFBP)	$	2,245,297	20,012	$	112.20
Trust Funds Investment Pool (TFIP)		2,256,235	21,197		106.44
Montana Domestic Equity Pool (MDEP)		3,991,969	15,748		253.49
Montana International Equity Pool (MTIP)		1,669,042	9,672		172.56
Montana Private Equity Pool (MPEP)		1,075,428	3,571		301.16
Montana Real Estate Pool (MTRP)		887,625	8,813		100.72
All Other Funds (AOF) Investments Managed		1,904,580	NA		NA
Short Term Investment Pool (STIP)		2,510,823	2,510,823		1.00
STIP included in investment pools	$	(63,298)	NA		NA
Total	$	16,477,701			

** Unit value is not in thousands.*

*** STIP unit value for Fiscal Year 2016 is $1.000207.*

E. Changes in Net Asset Value/Investments Managed – The following table depicts the change in NAV/IM from the previous year to the current year. There are three components contributing to the changes: 1) the value of Pool participant units and AOF investments purchased; 2) the value of Pool participant units and AOF investments sold; and 3) the change in the value of investments managed. The change in NAV for each Pool and AOF Investments Managed is shown in the following table.

2016 Pool Unit/AOF Investment Activity and Change in Value of Investments
(in thousands)

Pool	Value of Pool Units/Investments Purchased	Value of Pool Units/Investments Sold/Matured	Change in Value of Investments
Retirement Funds Bond Pool (RFBP)	$ 94,966	$ (36,893)	$ 59,715
Trust Funds Investment Pool (TFIP)	82,429	(52,520)	65,294
Montana Domestic Equity Pool (MDEP)	58,489	(95,089)	(179,372)
Montana International Equity Pool (MTIP)	48,241	(8,527)	(163,843)
Montana Private Equity Pool (MPEP)	49,008	(29,141)	21,097
Montana Real Estate Pool (MTRP)	30,499	(52,176)	58,666
All Other Funds (AOF) Investments Managed	5,646,125	(5,617,873)	17,654
Short Term Investment Pool (STIP)	$ 6,910,236	$ (6,611,084)	$ 582
Total	$ 12,919,993	$ (12,503,303)	$ (120,207)
STIP included in investment pools	$ (862,738)	$ 831,771	$ (30,967)

2015 Pool Unit/AOF Investment Activity and Change in Value of Investments
(in thousands)

Pool	Value of Pool Units/Investments Purchased	Value of Pool Units/Investments Sold/Matured	Change in Value of Investments
Retirement Funds Bond Pool (RFBP)	$ 141,400	$ (5,855)	$ (21,224)
Trust Funds Investment Pool (TFIP)	93,333	(18,358)	(14,481)
Montana Domestic Equity Pool (MDEP)	43,710	(49,107)	145,767
Montana International Equity Pool (MTIP)	25,290	(13,036)	(90,858)
Montana Private Equity Pool (MPEP)	24,655	(26,731)	46,336
Montana Real Estate Pool (MTRP)	21,190	(51,864)	68,528
All Other Funds (AOF) Investments Managed	4,310,807	(4,239,723)	(6,864)
Short Term Investment Pool (STIP)	$ 6,616,770	$ (6,617,459)	$ -
Total	$ 11,277,155	$ (11,022,133)	$ 127,204
STIP included in investment pools	$ (740,420)	$ 739,170	$ (1,250)

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F. Distributable Income – RFBP, TFIP, and AOF distributable income reported in the Statement of Investment Income and Distribution includes accrued interest, miscellaneous income, amortization/accretion of discount/premium, and realized gains/losses on pool participant and security sales. STIP income is comprised of accrued interest and amortization of discount. MDEP, MTIP, MPEP, and MTRP distributable income consists primarily of dividends. The pools retain net realized capital gains unless there is sale of pool units or a pool's expenses cause the Income Due Participants (IDP) balance to be negative. If there is a negative IDP balance at end of a month, there is a partial transfer of the pool's accumulated net realized capital gain to the IDP account to create a positive balance available for distribution. On settlement date, AOF portfolio receives gains/losses. On the first calendar day of each month, the IDP balance is distributed. Shown in the following table are the major sources of distributable income for each Pool and the AOF.

2016 Major Sources of Distributable Income
(in thousands)

Pool	Gain\(Loss) Participant Sales	Gain\(Loss) Transferred	Dividend\ Interest	Amortization\ Accretion
Retirement Funds Bond Pool (RFBP)	$ 3,070	$ -	$ 72,405	$ -
Trust Funds Investment Pool (TFIP)	5,180	-	83,045	(323)
Montana Domestic Equity Pool (MDEP)	211,153	-	30,633	-
Montana International Equity Pool (MTIP)	4,214	100	14,590	-
Montana Private Equity Pool (MPEP)	35,866	20,287	9,601	-
Montana Real Estate Pool (MTRP)	13,317	5,221	46,462	-
All Other Funds (AOF) Investments Managed	1,261	-	49,493	1,261
Short Term Investment Pool (STIP)	-	-	11,270	3,048
STIP included in investment pools	$ -	$ -	$ (292)	$ -
Total	$ 274,061	$ 25,608	$ 317,207	$ 3,986

2015 Major Sources of Distributable Income
(in thousands)

Pool	Gain\(Loss) Participant Sales	Gain\(Loss) Transferred	Dividend\ Interest	Amortization\ Accretion
Retirement Funds Bond Pool (RFBP)	$ 545	$ -	$ 72,178	$ -
Trust Funds Investment Pool (TFIP)	1,881	-	84,890	(74)
Montana Domestic Equity Pool (MDEP)	119,303	-	29,992	-
Montana International Equity Pool (MTIP)	9,255	400	12,817	-
Montana Private Equity Pool (MPEP)	31,924	9,500	18,430	-
Montana Real Estate Pool (MTRP)	7,326	-	43,197	-
All Other Funds (AOF) Investments Managed	9,403	-	51,058	973
Short Term Investment Pool (STIP)	-	-	6,132	1,615
STIP included in investment pools	$ -	$ -	$ (81)	$ -
Total	$ 179,637	$ 9,900	$ 318,613	$ 2,514

Distributable income for the fiscal year may not be distributed by June 30. Any undistributed amount is recorded as a payable against the NAV of the Pool at year-end. The distributable, distributed and undistributed income is shown in the following table.

2016 Distributable, Distributed and Undistributed Income
(in thousands)

Pool Name	Distributable	Distributed	Undistributed
Retirement Funds Bond Pool (RFBP)	$ 79,947	$ (73,920)	$ 6,027
Trust Funds Investment Pool (TFIP)	92,103	(86,091)	6,012
Montana Domestic Equity Pool (MDEP)	230,748	(229,019)	1,729
Montana International Equity Pool (MTIP)	15,168	(13,450)	1,718
Montana Private Equity Pool (MPEP)	40,612	(40,212)	400
Montana Real Estate Pool (MTRP)	56,460	(52,714)	3,746
All Other Funds (AOF) Investments Managed	50,568	(50,568)	-
Short Term Investment Pool (STIP)	10,932	(9,634)	1,298
STIP included in investment pools	$ (292)	$ 292	$ -
Total	$ 576,246	$ (555,316)	$ 20,930

2015 Distributable, Distributed and Undistributed Income
(in thousands)

Pool Name	Distributable	Distributed	Undistributed
Retirement Funds Bond Pool (RFBP)	$ 76,734	$ (70,652)	$ 6,082
Trust Funds Investment Pool (TFIP)	91,359	(85,029)	6,330
Montana Domestic Equity Pool (MDEP)	137,039	(135,405)	1,634
Montana International Equity Pool (MTIP)	18,968	(17,999)	969
Montana Private Equity Pool (MPEP)	39,599	(39,188)	411
Montana Real Estate Pool (MTRP)	40,133	(35,458)	4,675
All Other Funds (AOF) Investments Managed	60,415	(60,415)	-
Short Term Investment Pool (STIP)	3,474	(3,065)	409
STIP included in investment pools	$ (81)	$ 81	$ -
Total	$ 467,640	$ (447,130)	$ 20,510

G. Investment Management Fees – The Legislature sets the maximum management fee the Board may charge the accounts it manages. The maximum fee is set at the aggregate level at the beginning of each fiscal year. The Board allocates the aggregate fees across the Pools and AOF investments managed outside the Pools. Custodial bank fees are paid by a statutory appropriation from the state general fund. The Board allocates custodial bank fees across the Pools and accounts invested outside the Pools and deposits the funds required to pay the fee in the general fund. The State Treasurer then pays the monthly custodial bank fees from the general fund. External manager fees are paid directly from the accounts they manage. Investment management fees charged to each Pool and the AOF investments are shown in the following table.

Fiscal Year 2016 Management Fees
(in thousands)

Pool	Board	Custodial Bank	External Managers	Total
Retirement Funds Bond Pool (RFBP)	$ 773	$ 188	$ 1,285	$ 2,246
Trust Funds Investment Pool (TFIP)	550	145	1,844	2,539
Montana Domestic Equity Pool (MDEP)	758	676	8,945	10,379
Montana International Equity Pool (MTIP)	681	246	3,573	4,500
Montana Private Equity Pool (MPEP)	1,099	53	17,550	18,702
Montana Real Estate Pool (MTRP)	687	43	10,920	11,650
Short Term Investment Pool (STIP)	649	248	-	897
All Other Funds (AOF) Investments Managed	$ 891	$ 137	$ 671	$ 1,699
Total	$ 6,088	$ 1,736	$ 44,788	$ 52,612

Fiscal Year 2015 Management Fees
(in thousands)

Pool	Board	Custodial Bank	External Managers	Total
Retirement Funds Bond Pool (RFBP)	$ 668	$ 179	$ 1,543	$ 2,390
Trust Funds Investment Pool (TFIP)	467	113	1,868	2,448
Montana Domestic Equity Pool (MDEP)	675	660	9,383	10,718
Montana International Equity Pool (MTIP)	582	178	3,708	4,468
Montana Private Equity Pool (MPEP)	953	96	16,083	17,132
Montana Real Estate Pool (MTRP)	609	81	10,563	11,253
Short Term Investment Pool (STIP)	565	205	-	770
All Other Funds (AOF) Investments Managed	$ 771	$ 145	$ 650	$ 1,566
Total	$ 5,290	$ 1,657	$ 43,798	$ 50,745

3. INVESTMENT COMMITMENTS

Investments in private equity and private real estate are usually made via Limited Partnership Agreements that involve many limited partners and a General Partner who is responsible for all investment decisions. The Limited Partners make an original commitment, after which capital is called as needed by the General Partner to make investments. These Agreements will usually last for a minimum of 10 years. The following table shows the remaining Board commitments to private equity and private real estate funds.

Commitments to Fund Managers as of June 30, 2016
(in thousands)

Pool	Original Commitment	Commitment Remaining	Carrying Value	Fair Value
MPEP Commitments	$ 2,300,722	$ 729,269	$ 930,826	$ 985,853
MTRP Commitments	681,118	184,516	308,391	327,754
Total	$ 2,981,840	$ 913,785	$ 1,239,217	$ 1,313,607

Commitments to Fund Managers as of June 30, 2015
(in thousands)

Pool	Original Commitment	Commitment Remaining	Carrying Value	Fair Value
MPEP Commitments	$ 2,115,722	$ 590,314	$ 906,840	$ 1,011,488
MTRP Commitments	602,598	189,831	283,714	300,000
Total	$ 2,718,320	$ 780,145	$ 1,190,554	$ 1,311,488

4. TYPES OF INVESTMENTS

Bond Pools and AOF Investments – The RFBP, TFIP, and AOF fixed income portfolios include U.S. Treasury securities, U.S. agency and government-related securities, asset-backed securities, mortgage-backed securities, commercial mortgage-backed securities, and corporate securities categorized as financial, industrial or utility. These three portfolios may include variable-rate (floating rate) instruments with the interest rate tied to a specific rate such as LIBOR (London Interbank Offered Rate). Variable rate securities pay a variable rate of interest until maturity. To diversify income sources, one participant of the AOF is investing in two core real estate funds and an international and domestic equity index fund.

Public Equity Pools -The public equity Pools may include common stock, equity index shares, preferred stock, convertible equity securities, American Depositary Receipts (ADR), equity derivatives, and commingled funds. Common stock represents ownership units (shares) of a public corporation. Common stock owners may vote on director selection and other important matters and receive dividends if the company pays dividends. Equity index investments are comprised of shares in institutional commingled funds with equity portfolios that match a broad-based index or specific industry composite. Preferred stocks pay dividends at a specified rate and have preference in the payment of dividends and liquidation of assets. Preferred stock holders do not usually have voting rights.

Convertible securities permit the holder to exchange, or "convert" the instrument for other securities of the issuer or of another issuer. This definition most often applies to preferred stocks or corporate bonds carrying the right to exchange for a fixed number of shares of the issuer's common stock. ADR investments are receipts issued by a U.S. depositary bank representing shares of a foreign stock or bonds held abroad by the foreign sub-custodian of the American depositary bank. Equity derivatives, such as futures and options, "derive" their value from underlying equity instruments. An institutional commingled fund combines assets from several institutional investors that are blended or pooled together to reduce management and administration costs. The investor buys shares in the fund.

The MDEP portfolio is limited to domestic stock investments, while the MTIP portfolio includes holdings of securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges as depository receipts. The MTIP portfolio invests in both developed and emerging markets.

Alternative Investment Pools - The Montana Private Equity Pool (MPEP) includes venture capital, leveraged buyout, mezzanine, distressed debt, special situation, and secondary investments. These investments are made via Limited Partnership Agreements in which the Board and other institutional investors invest as Limited Partners in funds managed by a General Partner. These investments are less liquid than other types of investments because the funds are usually committed for at least 10 years. Because of the risk and illiquidity, these investments are limited to sophisticated investors only. The MPEP invests its cash in the State Street STIF (Short Term Investment Fund) and may also invest in State Street SPIFF (Stock Performance Index Futures Fund).

The Montana Real Estate Pool (MTRP) includes investments in private core, value-added, and opportunistic real estate. Core investments are the least risky with the lowest return and are usually managed in commingled accounts in which the investor purchases shares. Value-added and opportunistic real estate investments provide more risk and return and are less liquid than core investments. These investments are usually made through Limited Partnership Agreements. The MTRP invests its cash in STIP.

STIP - This Pool is managed to preserve principal while providing 24-hour liquidity for state agency and local government participants. Funds may be invested for one or more days. The STIP investments and the income are owned by the participants and are managed on their behalf by the Board. For the fiscal year ending June 30, 2016,

STIP is presented in the Statement of Net Asset Value at fair value. For the fiscal year ending June 30, 2015, STIP is presented in the Statement of Net Asset Value at "book" or amortized cost.

The portfolio may include asset-backed securities, commercial paper, corporate, U.S. Government direct obligations, U.S. Government agency securities, repurchase agreements, institutional money market funds, certificates of deposit, and variable-rate (floating-rate) instruments. Investments must have a maximum maturity of 397 days or less unless they are a variable rate security.

Asset-backed securities represent debt securities collateralized by a pool of mortgage and non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. Commercial paper is unsecured short-term debt with maturities ranging from 2 to 270 days. U.S. Government direct-backed securities include direct obligations of the U.S. Treasury and obligations explicitly guaranteed by the U.S. Government. U.S. Government indirect-backed obligations include U.S. Government agency. Repurchase agreements (REPO) represent an agreement between a seller and a buyer, usually of U.S. Government securities, whereby the seller agrees to repurchase the securities at an agreed upon price and stated time. Variable-rate securities pay a variable rate of interest until maturity. The STIP portfolio's variable-rate securities reset to LIBOR (London Interbank Offered Rate).

AOF - In addition to fixed income investments, the AOF portfolio includes two equity index funds, Veteran's Home Loan residential mortgages, two real estate funds, and commercial loans. Equity index investments are investments in institutional commingled funds whose equity portfolios match a broad-based index or composite.

The AOF Montana loans receivable represent commercial loans funded from the Coal Severance Tax Trust Fund by the Board and Montana Facility Finance Authority. The Veteran's Home Loan residential mortgages are also funded from the Coal Severance Tax Trust Fund. The Coal Severance Tax Trust loan portfolio also includes loans made by the Montana Science and Technology Alliance (MSTA) Board. The MSTA Board was abolished on July 1, 1999 and the MSTA portfolio was assigned to the Board. There are no uncollectible account balances for Montana mortgages and loans receivable as of June 30, 2016 and 2015. In fiscal year 2016, the Board wrote off $9 thousand related to a commercial loan foreclosure. In fiscal year 2015, the Board received $94 thousand as recovery proceeds related to a May 2012 MSTA loan written off. (See Note 10 for the Montana mortgages and loans portfolio.)

5. SECURITIES LENDING

The Board is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the Bank", to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. On any day, including June 30th, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The Board and the Bank split the earnings, 80/20% respectively, on security lending activities. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2016 and 2015, the Bank loaned the Board's public securities and received as collateral: U.S. dollar cash; U.S. Government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

The Board imposed no restrictions on the amount of securities available to lend during fiscal years 2016 and 2015. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower. There were no losses during fiscal years 2016 and 2015 resulting from a borrower default. As of June 30, 2016, RFBP securities in the amount of $4 million were recalled and not yet returned. As of June 30, 2015, no securities were recalled and not yet returned.

During fiscal years 2016 and 2015, the Board and the borrowers maintained the right to terminate all securities lending transactions on notice. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders, in two investment funds, the Quality D Short Term Investment Fund and the Security Lending Quality Trust. Each is comprised of a liquidity pool. Pension funds participate in the Quality D Short Term Investment Fund and non-pension entities participate in the Security Lending Quality Trust. In March 2015, the Board sold all of the holding within the duration pool of both the Quality D Short Term Investment Fund and the Security Lending Quality Trust, which resulted in a loss of $200 thousand and $26 thousand, respectively. Security lending income offset the entire amount of the loss within each investment fund. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2016 and 2015, State Street Bank indemnified the Board's credit risk exposure to borrowers. The private equity and real estate Pools do not participate in securities lending. The average duration and average weighted final maturity for each investment fund is as follows:

	Quality D ST Investment Fund		Security Lending Quality Trust	
Liquidity Pool	FY16	FY15	FY16	FY15
Average Duration	43 days	28 days	32 days	30 days
Average Weighted Final Maturity	83 days	109 days	92 days	115 days

Securities on loan and pledged collateral
(in thousands)

	June 30, 2016				
Pool/AOF	Fair Value On Loan	Collateral Cash	Collateral Securities	Collateral Total	% of Fair Value
Retirement Funds Bond Pool (RFBP)	$ 304,312	$ 83,090	$228,161	$ 311,251	102%
Trust Funds Investment Pool (TFIP)	151,431	27,613	127,094	154,707	102%
Montana Domestic Equity Pool (MDEP)	311,243	170,343	147,109	317,452	102%
Montana International Equity Pool (MTIP)	48,377	23,909	26,861	50,770	105%
Short Term Investment Pool (STIP)	12,592	11,844	1,025	12,869	102%
AOF Investments Managed	$ 118,153	$ 48,413	$ 72,413	$ 120,826	102%
Total	$ 946,108	$365,212	$602,663	$ 967,875	

	June 30, 2015				
Pool/AOF	Fair Value On Loan	Collateral Cash	Collateral Securities	Collateral Total	% of Fair Value
Retirement Funds Bond Pool (RFBP)	$ 284,889	$161,990	$128,833	$ 290,823	102%
Trust Funds Investment Pool (TFIP)	250,536	95,558	160,112	255,670	102%
Montana Domestic Equity Pool (MDEP)	304,237	202,954	106,142	309,096	102%
Montana International Equity Pool (MTIP)	39,790	18,702	23,044	41,746	105%
Short Term Investment Pool (STIP)	5,686	5,806	-	5,806	102%
AOF Investments Managed	$ 218,794	$135,211	$ 88,091	$ 223,302	102%
Total	$ 1,103,932	$620,221	$506,222	$ 1,126,443	

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Securities lending income and expenses
(in thousands)

	Fiscal Year 2016			
Pool/AOF	Gross Income	Expenses / Adjustments	Collateral Sale Gain/(Loss)	Net Income
Retirement Funds Bond Pool (RFBP)	$ 916	$ (270)	$ -	$ 646
Trust Funds Investment Pool (TFIP)	591	(181)	-	410
Montana Domestic Equity Pool (MDEP)	1,609	(555)	-	1,054
Montana International Equity Pool (MTIP)	374	(93)	-	281
Short Term Investment Pool (STIP)	48	(19)	-	29
AOF Investments Managed	$ 379	$ (127)	$ -	$ 252
Total	$ 3,917	$ (1,245)	$ -	$ 2,672

	Fiscal Year 2015			
Pool/AOF	Gross Income	Expenses / Adjustments	Collateral Sale Gain/(Loss)	Net Income
Retirement Funds Bond Pool (RFBP)	$ 953	$ (181)	$ (72)	$ 700
Trust Funds Investment Pool (TFIP)	884	(195)	(15)	674
Montana Domestic Equity Pool (MDEP)	1,011	(208)	(91)	712
Montana International Equity Pool (MTIP)	296	(57)	(37)	202
Short Term Investment Pool (STIP)	10	(1)	-	9
AOF Investments Managed	$ 694	$ (136)	$ (11)	$ 547
Total	$ 3,848	$ (778)	$ (226)	$ 2,844

6. INVESTMENT RISK DISCLOSURES AND DERIVATIVES

Deposit and Investment Risk Disclosures

In the following paragraphs described below are the investment risk disclosures.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. With the exception of U.S. Government securities, the pools' fixed income instruments have credit risk as measured by major credit rating services. For all retirement Pools, only approved cash investment vehicles are permitted. These include the custodian's STIF vehicle, STIP, or any SEC-registered money market fund, all of which specifically address credit risk in their respective investment guidelines. The Board's policy requires TFIP fixed income investments to be invested in investment grade securities (Baa3/BBB- or higher) with the exception of non-rated securities issued or guaranteed by agencies or instrumentalities of the US Government. The Board's STIP investment policy specifies that STIP securities have a minimum of two separate credit ratings as provided by Standard and Poor's, Moody's, or Fitch that meet the minimum as stated in the STIP investment policy depending on the type of investment.

The U.S. Government guarantees the U.S. Government securities directly or indirectly. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40.

Of the 18 individual Investment Policy Statements for the funds categorized as the AOF, 16 funds have specific policies associated with credit risk. The remaining two funds are not required to have a policy addressing credit risk, as they do not have exposure to debt securities. One fund requires corporate securities be rated A3/A- or higher by NRSRO to qualify for purchase. One fund requires fixed income investments, at the time of purchase, to be rated investment grade as defined either by Moody's or by NRSRO. This fund's investment policy states, "the maximum fixed income credit risk will be limited to 2% of the total securities portfolio in any one name." Five funds require, at the time of purchase, "the quality rating of any corporate bond shall be in the top of the single-A rating classification or better at the time of purchase (e.g. A1/A+ or higher) and have at least two ratings. Exposure to the securities of any one U.S. Agency is limited to 5% and in no event will an agency security be purchased if it carries a rating that is less than top-rated (AAA) at the time of purchase." Two funds require "fixed income securities must be rated at least A- or A3 at the time of purchase." A portion of one fund's portfolio may have modest credit risk while the remainder has a low tolerance for credit risk. Two funds assume some risk of loss of principal to provide a return sufficient to fund objectives. Four funds may assume low risk of principal loss.

Asset-backed securities held in the Bond Pools, AOF and STIP portfolios are based on the cash flows from principal and interest payments emanating from a Trust containing a pool of underlying auto loan, credit card or other receivables. These securities, while sensitive to prepayments due to interest rate changes, generally have less credit risk than unsecured bonds. Their credit risk is based on the structure itself rather than balance sheet risk. This includes such factors as default rates, overcollateralization, and quality of collateral.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Board will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Per policy, the Board's custodial institution must hold short-term and long-term credit rating by at least one Nationally Recognized Statistical Rating Organization with a minimum requirement of A1/P1 (short term) and A3/A-1 (long-term).

Cash– Custodial risk for cash is the risk that, in the event of the failure of the custodial institution, the cash or collateral securities may not be recovered from an outside party. For any cash balances held as deposits of the Custodial bank or sub-custodial bank, they are held in the name of the Board or its accounts. As of June 30, 2016 and 2015, the Board recorded cash of $9.7 million and $4.6 million, respectively.

Investments - As of June 30, 2016 and 2015, all the public securities as well as securities held by the separate public equity account managers were registered in the nominee name for the Montana Board of Investments and held in the possession of the Board's custodial bank, State Street Bank. The Equity Index funds, US Bank repurchase agreement, real estate, mortgage and loan investments were purchased and recorded in the Board's name. Commingled fund investments are registered in the name of the Montana Board of Investments.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of any single investment per issuer name. Investments explicitly guaranteed by the U.S. Government are excluded from the concentration of credit risk requirement. The U.S. government extended the explicit guarantee to certain government agencies such as Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (FHLMC-Freddie Mac). Given the explicit guarantee extension, the Board had no concentration of credit risk exposure to Fannie Mae and Freddie Mac in either the Bond Pools or STIP.

Bond Pools- Both the RFBP Core Internal Bond Portfolios and TFIP Investment Policy Statements (IPS) provide for a 2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities. The four RFBP external managers are limited to debt obligations of domestic and foreign corporations up to 3% of portfolio assets per issuer.

STIP – The STIP Investment Policy limits concentration of credit risk exposure by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities as well as any repurchase agreements with a financial institution. Concentration risk was within the policy as set by the board.

AOF - With the exception of nine funds, the 18 investment policy statements for various AOF state agencies do not address concentration of credit risk. One fund provides for a concentration limitation pertaining to repurchase obligations. The policy for another fund states, "the fixed income holdings rated lower than A3 or A- are limited to 25 percent of the fixed income portfolio at the time of purchase." This same fund is limited to stock investments not to exceed 12 percent of the book value of its total invested assets. In addition, this fund's and another fund's IPS provides for a "2% portfolio limit for dollar denominated debt obligations of domestic and foreign corporations (Yankee bonds) and a 3% portfolio limit in non-agency Mortgage Pass-through (MBS) securities." One fund's corporate risk is limited to investing 3% in any one name. The policy for five funds sets "investment limits to reduce the risk of loss on individual corporate bonds, investment purchases in any one credit will be limited to 1% of the market value of the fund at the date of purchase or 2% of the lowest projected fund balance before the securities mature, whichever is lower." Limits are also set by corporate bond sector for these five funds. Investments by various governmental agencies, pooled as the All Other Funds, are excluded from the concentration of credit risk requirement. There was no concentration of credit risk exceeding these policy guidelines as of June 30, 2016 and 2015.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. Although the MTIP, RFBP, and MTRP do not have a formal policy to limit foreign currency risk, the MTIP policy provides for the "external managers to hedge currency in a defensive manner. The managers are not allowed to engage in currency speculation, such as over-hedging, reverse hedging, cross-hedging or other trading activity not specifically aimed at minimizing risk versus their benchmark or preserving the U.S. dollar value of investments. The managers' Investment Guidelines provide for currency hedging and emerging market limitations. At the Pool level, MTIP will be managed on an un-hedged basis." The MPEP policy does not address foreign currency risk,

but identifies "country risk as including all of the risks associated with international alternative investments along with the political, economic and currency risks associated with investing outside of the United States." As of the June 30, 2016 and 2015 exchange dates, the Boards' foreign currency exposure by forward contracts, deposits and investment type are reported, in U. S. dollars, at fair value in the following tables excluding the foreign investments denominated in U. S. dollars for the American Depositary Receipts (ADRs), sovereign debt and commingled index funds.

MTIP and RFBP Currency Forward Contracts by Foreign Currency
(in thousands)

	2016			2015		
Currency	Receivables	Payables	Total	Receivables	Payables	Total
Australian Dollar	$ -	$ -	$ -	$ -	$ 10	$ 10
Brazilian Real	-	-	-	-	(16)	(16)
Canadian Dollar	-	-	-	-	22	22
Euro	-	-	-	(10)	67	57
Indonesian Rupiah	-	-	-	17	-	17
Indian Rupee	-	-	-	(3)	-	(3)
Mexican Peso	-	-	-	-	40	40
New Israeli Sheqel	-	-	-	20	(22)	(2)
New Zealand Dollar	-	-	-	(114)	163	49
UK Pound Sterling	$ -	$ -	$ -	$ -	$ (23)	$ (23)
Total	$ -	$ -	$ -	$ (90)	$ 241	$ 151

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Foreign Currency Exposure by Country
Investment Type in U.S. Dollar Equivalent
(in thousands)
June 30, 2016

Foreign Currency Denomination	Currency	Fixed Income	Equities	Private Equity	Real Estate
Australian Dollar	$ -	$ -	$ 18,844	$ -	$ -
Brazilian Real	175		15,267		
Canadian Dollar	237		28,352		
Czech Karuna	4		-		
Danish Krone	21		9,264		
EMU-Euro	57		80,373	25,528	6,617
Hong Kong Dollar	179		17,308		
Hungarian Forint	1		-		
Indonesian Rupiah	5		481		
Israeli Shekel	-		602		
Japanese Yen	206		70,423		
Korean Fortnit	-		1,064		
Malaysian Ringgit	29		2,747		
New Zealand Dollar	2		-		
New Israeli Sheqel	-		471		
Norwegian Krone	17		3,761		
Philippine Peso	11		2,457		
Polish Zloty	-		1,637		
Singapore Dollar	38		7,165		
South African Rand	62		9,439		
South Korean Won	48		11,240		
Swedish Krona	1		21,151		
Swiss Franc	93		19,371		
New Taiwan Dollar	-		8,530		
Thailand Baht	-		2,960		
Turkish Lira	1		3,413		
UK Pound Sterling	$ 90	$ -	$ 77,906	$ -	$ -
Total	$ 1,277	$ -	$ 414,226	$ 25,528	$ 6,617

Foreign Currency Exposure by Country
Investment Type in U.S. Dollar Equivalent
(in thousands)
June 30, 2015

Foreign Currency Denomination	Currency	Fixed Income	Equities	Private Equity	Real Estate
Australian Dollar	$ 79	$ 1,396	$ 21,298	$ -	$ -
Brazilian Real	57	1,733	9,779		
Canadian Dollar	66	1,579	24,504		
Danish Krone			8,136		
EMU-Euro	97	4,907	78,700	25,150	10,911
Hong Kong Dollar	284		19,899		
Hungarian Forint	1				
Indonesian Rupiah	1		159		
Israeli Shekel			318		
Japanese Yen	447		68,528		
Korean Fortnit			12,068		
Malaysian Ringgit	17		493		
Mexican Peso	67	1,800	2,666		
New Zealand Dollar	11	2,095			
New Israeli Sheqel	165		767		
Norwegian Krone	8		3,956		
Philippine Peso	6		3,454		
Polish Zloty			1,778		
Singapore Dollar	64		7,509		
South African Rand	5		6,594		
South Korean Won	51				
Swedish Krona	(1)		17,631		
Swiss Franc	41		21,309		
New Taiwan Dollar	7		11,318		
Thailand Baht	6		2,450		
Turkish Lira	17		3,080		
UK Pound Sterling	$ 172	$ 916	$ 79,757	$ -	$ -
Total	$ 1,668	$ 14,426	$ 406,151	$ 25,150	$ 10,911

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with GASB Statement No. 40, the Board uses effective duration as a measure of interest rate risk for the Bond Pool and AOF portfolios. Our analytic software uses "an option-adjusted measure of a bond's (or portfolio's) sensitivity to changes in interest rates. Duration is the average percentage change in a bond's price for a given change in interest rates. Prices move inversely to interest rates. The effective duration method incorporates the effect of embedded options for bonds and changes in prepayments for mortgage-backed securities (including pass-through securities, Collateralized Mortgage Obligation (CMO), and Adjustable Rate Mortgage (ARM) securities)." Per policy, the TFIP and the CIBP's duration are to remain within 20% of the established Index duration. Duration for two fixed income external managers must be within 25% of the established Index duration. MDEP domestic equity managers are allowed to maintain up to 5% of assets in short-term investments and index domestic equity managers are allowed to maintain up to 3% of assets in short-term investments and individual securities. MTIP international equity managers are allowed to maintain up to 5% of assets in short-term investments. With the exception of three funds, the AOFs' investment policies do not formally address interest rate risk. One fund limits securities to three years to maturity and repurchase agreements seven days to maturity. A second fund's policy sets an average duration range of 2-5 years for fixed income securities except in extraordinary circumstances where a shorter duration may be advisable. A third fund's policy limits securities to 1-5 year U.S. Treasury/Agency securities tolerating modest interest rate risk. Eight funds have the "ability to assume interest rate risk." According to the STIP investment policy "the STIP portfolio will minimize interest rate risk by:

1) structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2) maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities; and
3) STIP will maintain a reserve account."

The fixed coupon holdings in the Bond Pools and AOF accounts pay a fixed rate of interest until maturity while floating rate securities pay a variable rate of interest until maturity. As of June 30, 2016 and 2015, these three portfolios and the STIP portfolio held certain variable rate issues. Interest payments on these securities are based on an underlying reference rate, e.g., LIBOR.

RFBP, TFIP and AOF investments are categorized on the subsequent pages to disclose credit and interest rate risk as of June 30, 2016 and June 30, 2015. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. NA (not applicable) indicates if duration has not been calculated. The S&P rating service provide the credit ratings presented in the following tables. If an S&P rating is not available, a NRSRO rating is used.

RFBP Credit Quality Rating and Effective Duration as of June 30, 2016

Security Investment Type		Fair Value	Credit Quality Rating*	Effective Duration*
Treasuries	$	540,362	AA+	8.20
Agency/Government Related		115,557	AA-	6.87
Asset Backed Securities		109,847	AAA	2.20
Mortgage Backed Securities		407,828	AA+	3.45
Commercial Mortgage Backed Securities		245,271	AA+	5.39
Financial-Corporate		268,301	BBB+	3.77
Industrial-Corporate		519,683	BBB	6.05
Utility-Corporate		47,020	BBB+	5.90
Short Term Investment Pool (STIP)		16,449	NR	0.11
State Street Short Term Investment Fund (STIF)		95,512	AAA	0.07
Other	$	131	NR	4.34
Total Fixed Income Investments	$	2,365,961	AA-	5.38
Direct Investments				
Montana Mortgages		6,756	NR	NA
Preferred Stock**		-		
Common Stock**	$	-		
Total Direct Investments	$	6,756		
Total Investments	$	2,372,717		
Securities Lending Collateral Investment Pool	$	83,090	NR	0.12

*Credit Quality Rating and Effective Duration are weighted.

** Due to a May 2012 bankruptcy restructuring, the RFBP received 259 shares of common stock and 400 warrants for an investment. As of June 30, 2016 the RFBP still held the 400 warrants at a fair value of $0 with an expiration of May 17, 2017.

RFBP Credit Quality Rating and Effective Duration as of June 30, 2015

Security Investment Type		Fair Value	Credit Quality Rating*	Effective Duration*
Treasuries	$	458,084	AA+	8.04
Agency/Government Related		113,958	AA-	6.16
Asset Backed Securities		108,113	AA+	2.40
Mortgage Backed Securities		442,453	AA+	5.17
Commercial Mortgage Backed Securities		188,443	AA+	4.19
Financial-Corporate		288,443	A-	3.74
Industrial-Corporate		470,416	BBB	5.84
Utility-Corporate		53,782	BBB-	6.10
Short Term Investment Pool (STIP)		1,143	NR	0.14
State Street Short Term Investment Fund (STIF)		85,807	AAA	0.09
Other	$	658	BB	3.97
Total Fixed Income Investments			A+	5.37
	$	2,211,300		
Direct Investments				
Montana Mortgages		7,999	NR	NA
Preferred Stock**		1,017	BB+	NA
Common Stock**	$	5		
Total Direct Investments	$	9,021		
Total Investments	$	2,220,321		
Securities Lending Collateral Investment Pool	$	161,990	NR	0.08

*Credit Quality Rating and Effective Duration are weighted.
**Due to a May 2012 bankruptcy restructuring, the RFBP received 259 shares of common stock and 400 warrants for an investment. In addition to the common stock and warrants, the RFBP held 4,400 shares of perpetual preferred stock and 15,000 shares of cumulative preferred stock as of June 30, 2015.

TFIP Credit Quality Rating and Effective Duration as of June 30, 2016
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating*	Effective Duration*
Treasuries	$ 503,524	AA+	7.57
Agency/Government Related	108,132	AA-	7.54
Asset Backed Securities	112,313	AAA	2.26
Mortgage Backed Securities	493,374	AA+	3.73
Commercial Mortgage Backed Securities	164,887	AAA	5.32
Financial-Corporate	213,578	A-	4.94
Industrial-Corporate	367,152	A-	6.67
Utility-Corporate	53,823	BBB+	6.07
Short Term Investment Pool (STIP)	48,310	NR	0.11
Core Real Estate	177,581	NR	NA
High Yield Bond Fund	101,815	B+	4.26
Total Investments	$ 2,344,489	AA-	5.39
Securities Lending Collateral Investment Pool	$ 27,613	NR	0.08

*Credit Quality Rating and Effective Duration are weighted.

TFIP Credit Quality Rating and Effective Duration as of June 30, 2015
(in thousands)

Security Investment Type	Fair Value	Credit Quality Rating*	Effective Duration*
Treasuries	$ 437,060	AA+	7.24
Agency/Government Related	101,462	AA-	7.49
Asset Backed Securities	110,402	AAA	2.19
Mortgage Backed Securities	491,533	AA+	4.63
Commercial Mortgage Backed Securities	185,672	AA+	4.59
Financial-Corporate	214,548	A-	4.59
Industrial-Corporate	327,586	A-	6.44
Utility-Corporate	66,061	BBB	5.85
Short Term Investment Pool (STIP)	41,971	NR	0.14
State Street Repurchase Agreement	6,497	AA-	0.00
Core Real Estate	166,310	NR	NA
High Yield Bond Fund	106,234	B+	4.40
Total Investments	$ 2,255,336	AA-	5.39
Securities Lending Collateral Investment Pool	$ 95,558	NR	0.08

*Credit Quality Rating and Effective Duration are weighted.

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AOF Credit Quality Rating and Effective Duration as of June 30, 2016
(in thousands)

Security Investment Type		Fair Value	Credit Quality Rating*	Effective Duration*
Treasuries	$	301,923	AA+	3.70
Agency/Government Related		472,542	AA+	2.85
Asset Backed Securities		68,966	AAA	2.29
Mortgage Backed Securities		3,600	AA+	2.03
Financial-Corporate		351,912	A-	3.13
Industrial-Corporate		285,488	A	4.28
Utility-Corporate		42,080	BBB+	3.66
State Street Bank Repurchase Agreement**		5,079	AA-	0
US Bank Sweep Repurchase Agreement***		7,830	NR	0
Total Fixed Income Investments	$	1,539,420	AA-	3.35
Direct Investments				
Equity Index Fund-Domestic	$	137,916		
Equity Index Fund-International		17,591		
Equity Index Fund-US Debt		1,186		
Total Equity Index Funds		156,693		
Core Real Estate		90,312		
MT Mortgages and Loans		149,897		
Total Direct Investments	$	396,902		
TOTAL INVESTMENTS	$	1,936,322		
Securities Lending Collateral Investment Pool	$	48,413	NR	0.08

*Credit Quality Rating and Effective Duration are weighted.

** At June 30, 2016, the State Street Bank Repurchase Agreement was collateralized at 102% for $5.184 million by a US Treasury security maturing October 31, 2017. This security carries AA+ quality rating.

***At June 30, 2016, the US Bank Sweep Repurchase Agreement, per contract, was collateralized at 102% for $7.986 million by Federal Home Loan Mortgage Corporation Gold securities maturing November 1, 2024 and July 1, 2024. These securities carry AA+ credit quality rating.

AOF Credit Quality Rating and Effective Duration as of June 30, 2015
(in thousands)

Security Investment Type		Fair Value	Credit Quality Rating*	Effective Duration*
Treasuries	$	274,462	AA+	3.47
Agency/Government Related		495,577	AA+	2.85
Asset Backed Securities		59,451	AAA	2.15
Mortgage Backed Securities		5,293	AA+	2.21
Financial-Corporate		347,541	A	3.38
Industrial-Corporate		274,182	A	3.69
Utility-Corporate		48,558	BBB+	4.43
US Bank Sweep Repurchase Agreement**		5,141	NR	0
Total Fixed Income Investments	$	1,510,205	AA-	3.26
Direct Investments				
Equity Index Fund-Domestic	$	146,277		
Equity Index Fund-International		19,085		
Total Equity Index Funds		165,362		
Core Real Estate		84,590		
MT Mortgages and Loans		134,082		
Total Direct Investments	$	384,034		
TOTAL INVESTMENTS	$	1,894,239		
Securities Lending Collateral Investment Pool	$	135,211	NR	0.08

*Credit Quality Rating and Effective Duration are weighted.

**At June 30, 2015, the US Bank Sweep Repurchase Agreement, per contract, was collateralized at 102% for $5.243 million by a Federal Home Loan Mortgage Corporation Gold securities maturing November 1, 2024. This security carries AA+ credit quality rating.

STIP investments are categorized in the following page to disclose credit risk and weighted average maturity (WAM) as of June 30, 2016 and June 30, 2015. Credit risk reflects the weighted security quality rating by investment type as of the June 30 report date. If a security investment type is unrated, the quality type is indicated by NR (not rated). Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated. The short-term credit ratings, provided by S&P's rating services, are presented in the following table. An A1+ rating is the highest short-term rating by the S&P rating service. STIP interest rate risk is determined using the WAM method. The WAM measure expresses investment time horizons – the time when investments are due or reset and payable in days, months or years – weighted to reflect the dollar size of the individual investments within an investment type. The WAM, calculated in days, for the STIP portfolio is shown on the next page.

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STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2016
(in thousands)

Security Investment Type		Fair Value *	Credit Quality Rating**	WAM in Days
Treasuries	$	75,122	A-1+	133
Asset Backed Commercial Paper		786,486	A-1	22
Corporate Commercial Paper		262,021	A-1	82
Corporate Variable Rate		467,046	A-1	45
Certificates of Deposit Fixed Rate		25,004	A-1	15
Certificates of Deposit Variable Rate		500,023	A-1	47
U.S. Government Agency Fixed		241,350	A-1+	75
U.S. Government Agency Variable Rate		263,901	A-1+	16
Money Market Funds (Unrated)		13,143	NR	1
Money Market Funds (Rated)		189,003	A-1+	1
Total Investments	$	2,823,099	A-1	41
Securities Lending Collateral Investment Pool	$	11,844	NR	32

*Beginning with the period of June 30, 2016, the STIP portfolio is shown at fair value. For the period prior to June 30, 2016, the STIP portfolio was shown at amortized cost.

**Credit Quality Rating is weighted.

STIP Credit Quality Ratings and Weighted Average Maturity as of June 30, 2015
(in thousands)

Security Investment Type		Amortized Cost	Credit Quality Rating*	WAM in Days
Asset Backed Commercial Paper	$	779,579	A-1	25
Corporate Commercial Paper		101,299	A-1	102
Corporate Variable Rate		571,672	A-1+	42
Certificates of Deposit Fixed Rate		150,000	A-1	259
Certificates of Deposit Variable Rate		450,000	A-1+	47
Other Asset Backed		27,821	NR	NA
U.S. Government Agency Fixed		54,498	A-1+	236
U.S. Government Agency Variable Rate		239,008	A-1+	24
Money Market Funds (Unrated)		161,592	NR	1
Money Market Funds (Rated)		3,000	A-1+	1
Total Investments	$	2,538,469	A-1	52
Securities Lending Collateral Investment Pool	$	5,806	NR	30

*Credit Quality Rating is weighted.

Legal and Credit Risk

STIP - In January 2007, the Board purchased a $25 million par issue of Orion Finance USA. In April 2007, the Board purchased two issues of Axon Financial Funding totaling $90 million par and another $25 million par issue of Orion Finance USA. As of June 30, 2007, these Structured Investment Vehicle (SIV) securities held in the STIP portfolio carried a combined amortized cost of $140 million representing 5.02% of the total portfolio. At the time of purchase and as of June 30, 2007, these four issues received the highest investment grade rating of AAA by Standard & Poor's and Aaa by Moody's. Since June 30, 2008 and through June 30, 2010, these issues carried a D rating by Standard & Poor's. On November 20, 2007, Axon Financial Funding declared an insolvency event. Orion Finance USA declared an insolvency event on January 14, 2008. On the January and April 2008 maturity dates, these securities matured at their amortized cost of $140 million.

The Board had determined it was in the best interest of the STIP to hold these securities in the investment portfolio. In May 2016, the Board wrote-off the entire outstanding SIV balance of $23.6 million against the STIP reserve. Any further flows of either principal of interest will be deemed as recovery monies and be applied to the STIP reserve. From May 31, 2016 until June 30, 2016, $4.4 was recorded as recovery monies and applied to the STIP reserve. Refer to Note 8 – STIP Reserve for additional detail.

Axon Financial Funding payments totaled $27.5 million from November 2008 to October 2011. On July 6, 2010, Axon Financial Funding foreclosed with the issuance of a promissory note for $66.8 million from AFF Financing LLC with a July 5, 2011 maturity date. The Board, with the majority of other holders, elected on June 3, 2015 to extend the AFF Financing LLC promissory note maturity date to July 2, 2016. Similar one-year extensions have been granted since 2011. In June and December 2009, the Board applied $13.5 million, in total, from the STIP reserve to the outstanding principal for the Axon Financial Funding securities. Fiscal year 2016 payments thru May 30, 2016 from AFF Financing LLC totaled $3.2 million consisting of $3.1 million in principal and $71 Thousand in interest. Fiscal year 2015 payments from AFF Financing LLC totaled $8.2 million consisting of $8.2 million in principal and $52 thousand in interest. As of June 30, 2016 and 2015, the AFF Financing LLC, classified as an Other Asset-Backed security, had outstanding amortized cost balances, respectively, of $0.0 million and $14.7 million. Refer to Note 13 – Subsequent Events for additional information.

On October 14, 2009, the Board received its initial payment from Orion Finance USA. From this date through November 2010, payments from Orion Finance USA included principal of $13.4 million and interest compensation of $1.8 million in excess of the $904 thousand accrued interest receivable for a total of $16.1 million. In November 2010, Orion Finance Corporation "granted a security interest in substantially all of its assets (the Collateral) to the Bank of New York Mellon, as Security Trustee". On December 8, 2010, the Security Trustee conducted "a public sale of 60 structured credit and 7 financial securities including but not limited to asset- backed securities, collateralized debt obligations, collateralized loan obligations and residential mortgage backed securities included within the Collateral". The Board participated in the sale and collectively holds these individual securities as Orion Finance. In June and December 2009, the Board applied $7.5 million, in total; from the STIP reserve to the outstanding principal for the Orion Finance USA securities. From December 2010 through May 31, 2016, the Board received principal and interest payments of $17.0 million and $2.9 million, respectively. As of June 30, 2016 and 2015, the Orion Finance collective holding, classified as Other Asset-Backed, had outstanding amortized cost balances, respectively, of $0.0 million and $13.2 million. Refer to Note 13 – Subsequent Events for additional information.

STIP, Bond Pool and AOF – As of June 30, 2016 and 2015, the Federal National Mortgage Association and Federal Home Loan Mortgage Corp. remain in conservatorship from September 7, 2008.

Bond Pool and AOF - On September 14, 2008, Lehman Brothers filed for Chapter 11 bankruptcy. The Bond Pool and AOF portfolios held a $15 million position in a Lehman Brothers Holdings, Inc., variable rate security with a May 25, 2010 maturity. The AOF portfolio also includes a $5 million position in Lehman Brothers Holdings, Inc., 5% rate, and January 14, 2011 maturity. As of September 30, 2008, the book value of these bond positions was written down to 80% of par. On October 30, 2008, the book value of these bonds was further written down to 65% of par. Four additional write downs occurred during fiscal year 2009. In May 2009, the Board sold a $5 million position in Lehman Brothers Holdings, Inc., variable rate security, held by the RFBP internally managed bond portfolio. This holding, written down to $1 million, was sold at a loss of $313 thousand. As of June 30, 2011, the book value of the remaining bonds represents 20% of par. The Board sold the $5 million AOF position in Lehman Brothers Holdings, Inc. 5% rate, January 14, 2011 maturity at a price of $26 on December 6, 2011. Because the bonds were previously written down to a price of $20, this sale generated a gain of $322 thousand.

For the remaining $10 million variable rate position in Lehman Brothers Holdings, Inc. held in the TFIP and AOF portfolios, the Board applied $519 thousand in principal from the October 2013 bankruptcy payment resulting in a book value of $1 each as of June 30, 2014. These positions were sold in June 2016 for $765 thousand. Because these bonds were previously written down to $1 dollar, this sale generated a gain of $765 thousand. For fiscal year ending June 30, 2016 the Board recorded a $238 thousand dollar October 2015 payment and a $68 thousand March 2016 payment to gain. For fiscal year ending June 30, 2015 the Board recorded a $464 thousand dollar October 2014 payment to gain and a $319 thousand dollar April payment to gain.

In August 2011, S&P downgraded the U.S. AAA bond rating to AA+.

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Derivative Instruments

Described in the following paragraphs are the derivative instrument disclosures. The fair value balances and notional amounts of derivative instruments outstanding as of June 30, 2016 and 2015, classified by type, are as follows:

List of Derivatives Aggregated by Investment Type
(in thousands)

		June 30, 2016		June 30, 2015	
Investment Derivatives	Classification	Fair Value Amount	Notional	Fair Value Amount	Notional
Credit default swaps	Swaps	$ 131	$ 4,320	$ 68	$ 1,099
Currency forward contracts	Long term debt/equity	-	-	151	22,750
Index futures long	Futures	-	2	-	4
Rights	Equity	19	27	-	162
Total derivatives		$ 150		$ 219	

		Changes in Fair Value	
Investment Derivatives	Classification	2016 Amount	2015 Amount
Credit default swaps	Investment revenue	$ 323	$ 425
Currency forward contracts	Investment revenue	309	2,946
Index futures long	Investment revenue	205	735
Rights	Investment revenue	50	82
Total derivatives		$ 887	$ 4,188

A credit default swap is a contract to transfer credit exposure of fixed income products between parties. A foreign currency forward is a contract to purchase one currency and sell another at an agreed upon exchange rate. Fair value represents the unrealized appreciation/depreciation on foreign currency forward transactions pending as of yearend and is the difference between the execution exchange rate and the prevailing exchange rate as of the report date. Index futures long are an agreement to buy, on a stipulated future date, a specific amount of an indexed financial instrument. Rights represent a privilege granted to existing shareholders to subscribe to shares of a certain security at a specified price.

Counterparty Credit Risk - Counterparty Credit risk is the risk that the counterparty will not fulfill its obligations. The following table depicts the Board's counterparty credit risk exposure to its investment derivatives.

Counterparty Credit Risk

Maximum Loss before/after Netting and Collateral (in thousands)	2016 Amount	2015 Amount
Maximum amount of loss the Board would face in case of default of all counterparties, i.e. aggregated (positive) fair value of OTC (Over-the-Counter) positions as of June 30.	$ 131	$ 421
Effect of collateral reducing maximum exposure.	-	-
Liabilities subject to netting arrangements reducing exposure.	-	-
Resulting net exposure	$ 131	$ 421

This table reflects the applicable counterparty credit ratings and risk concentrations for both fiscal years.

Risk Concentrations

Counterparty Name	2016 Percentage of Net Exposure	2015 Percentage of Net Exposure	2016/2015 S&P Rating	2016/2015 Fitch Rating	2016/2015 Moody's Rating
Goldman Sachs Capital	100%	16%	BBB+/A-	A/A	A3/A3
Deutsche Bank London	0%	27%	NA/BBB+	NA/A	NA/A3
Westpac Banking Corp	0%	25%	NA/AA-	NA/AA-	NA/Aa2
JP Morgan Chase Bank	0%	12%	NA/A+	NA/AA-	NA/Aa3
Royal Bank of Canada	0%	10%	NA/AA-	NA/AA	NA/Aa3
Citibank N.A.	0%	5%	NA/A	NA/A+	NA/A1
Royal Bank of Scotland	0%	5%	NA/BBB+	NA/BBB+	NA/A3

7. FAIR VALUE MEASUREMENT

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

- Level 1—Quoted prices for identical assets or liabilities in active markets.
- Level 2—Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 – Prices are determined using unobservable inputs.

Valuations not classified within these levels are further explained in Section B.

A. For each of the pools and AOF the Board has the following recurring fair value measurements as of June 30, 2016 and 2015:

RFBP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments				
Treasuries	$ 540,362	$ 540,362		
Agency/Government Related	115,557		$ 115,557	
Asset Backed Securities	109,847		109,847	
Mortgage Backed Securities	407,828		407,828	
Commercial Mortgage Backed Securities	245,271		245,271	
Financial-Corporate	268,301		268,301	
Industrial-Corporate	519,683		519,683	
Utility-Corporate	47,020		47,020	
Total fixed income investments	2,253,869	540,362	1,713,507	
Direct investments				
Montana Mortgages	6,756			$ 6,756
Investment derivative instruments				
Other				
Credit default swaps	131		131	
Total investments by fair value level	2,260,756	$ 540,362	$ 1,713,638	$ 6,756
Investments measured at the net asset value (NAV)				
Short Term Investment Pool (STIP)	16,449			
Total investments at fair value	2,277,205			
Investments measured at cost				
State Street Short Term Investment Fund (STIF)	95,512			
Total investments managed	$ 2,372,717			

RFBP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments				
Treasuries	$ 458,084	$ 458,084		
Agency/Government Related	113,958		$ 113,958	
Asset Backed Securities	108,113		108,113	
Mortgage Backed Securities	442,453		442,453	
Commercial Mortgage Backed Securities	188,443		188,443	
Financial-Corporate	288,443		288,443	
Industrial-Corporate	470,416		470,416	
Utility-Corporate	53,782		53,782	
Other	589		589	
Total fixed income investments	2,124,281	458,084	1,666,197	
Direct investments				
Preferred Stock	1,017	1,017		
Common Stock	5		5	
Montana Mortgages	7,999			$ 7,999
Total direct investments	9,021	1,017	5	7,999
Investment derivative instruments				
Other				
Credit default swaps	69		69	
Total investments by fair value level	2,133,371	$ 459,101	$ 1,666,271	$ 7,999
Investments measured at cost				
State Street Short Term Investment Fund (STIF)	85,807			
Short Term Investment Pool (STIP)	1,143			
Total investments measured at cost	86,950			
Total investments managed	$ 2,220,321			

TFIP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments				
Treasuries	$ 503,524	$ 503,524		
Agency/Government Related	108,132		$ 108,132	
Asset Backed Securities	112,313		112,313	
Mortgage Backed Securities	493,374		493,374	
Commercial Mortgage Backed Securities	164,887		164,887	
Financial-Corporate	213,579		213,579	
Industrial-Corporate	367,152		367,152	
Utility-Corporate	53,822		53,822	
Total fixed income investments by fair value level	2,016,783	$ 503,524	$ 1,513,259	
Investments measured at the net asset value (NAV)				
Core Real Estate	177,581			
High Yield Bond Fund	101,815			
Short Term Investment Pool (STIP)	48,310			
Total investments measured at the NAV	327,706			
Total investments at fair value	$ 2,344,489			

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TFIP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments				
Treasuries	$ 437,060	$ 437,060		
Agency/Government Related	101,462		$ 101,462	
Asset Backed Securities	110,402		110,402	
Mortgage Backed Securities	491,533		491,533	
Commercial Mortgage Backed Securities	185,672		185,672	
Financial-Corporate	214,548		214,548	
Industrial-Corporate	327,586		327,586	
Utility-Corporate	66,061		66,061	
State Street Repurchase Agreement	6,497		6,497	
Total fixed income investments by fair value level	1,940,821	$ 437,060	$ 1,503,761	
Investments measured at the net asset value (NAV)				
Core Real Estate	166,310			
High Yield Bond Fund	106,234			
Total investments measured at the NAV	272,544			
Total investments at fair value	$ 2,213,365			
Investments measured at cost				
Short Term Investment Pool (STIP)	41,971			
Total investments managed	$ 2,255,336			

MDEP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Equity investments				
Consumer discretionary	$ 213,111	$ 213,111		
Consumer staples	95,760	95,760		
Energy	84,519	84,519		
Financials	223,297	223,297		
Health care	185,821	185,821		
Industrials	180,373	180,373		
Information technology	288,559	288,559		
Materials	81,730	81,730		
Mutual funds	71,946	71,946		
Telecommunication services	29,197	29,197		
Utilities	31,564	31,564		
Venture capital	1,568	1,568		
Total equity investments by fair value level	1,487,445	$ 1,487,445		
Investments measured at the net asset value (NAV)				
Commingled equity index funds	2,154,363			
Total investments at fair value	$ 3,641,808			
Investments measured at cost				
Cash equivalents	136,196			
Total investments managed	$ 3,778,004			

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MDEP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Equity investments				
Consumer discretionary	$ 251,971	$ 251,971		
Consumer staples	90,053	90,053		
Energy	88,317	88,317		
Financials	237,885	237,885		
Health care	234,483	234,483		
Industrials	193,955	193,955		
Information technology	306,403	306,403		
Materials	72,054	72,054		
Mutual Funds	87,803	87,803		
Private placement	134	134		
Real estate investment trust	(101)	(101)		
Telecommunication services	22,971	22,971		
Utilities	35,042	35,042		
Total equity investments by fair value level	1,620,971	$ 1,620,971		
Investments measured at the net asset value (NAV)				
Commingled equity index funds	2,326,730			
Total investments at fair value	$ 3,947,700			
Investments measured at cost				
Cash equivalents	35,361			
Total investments managed	$ 3,983,061			

MTIP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Equity investments				
Consumer discretionary	$ 72,208	$ 72,208		
Consumer staples	53,079	53,079		
Energy	30,226	30,226		
Financials	92,321	92,321		
Health care	44,139	44,139		
Industrials	61,048	61,048		
Information technology	61,111	61,111		
Materials	20,465	20,465		
Mutual funds	78,087	78,087		
Telecommunication services	14,114	14,114		
Utilities	5,240	5,240		
Total equity investments by fair value level	532,038	$ 532,038		
Investments measured at the net asset value (NAV)				
Commingled equity index funds	973,032			
Total investments at fair value	$ 1,505,070			
Investments measured at cost				
Cash equivalents	38,947			
Total investments managed	$ 1,544,017			

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MTIP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Equity investments				
Consumer discretionary	$ 82,963	$ 82,963		
Consumer staples	38,499	38,499		
Energy	26,466	26,466		
Financials	103,139	103,139		
Health care	41,864	41,864		
Industrials	57,714	57,714		
Information technology	48,105	48,105		
Materials	21,305	21,305		
Mutual Funds	82,363	82,363		
Private placement	8,738	8,738		
Real estate investment trust	14,723	14,723		
Telecommunication services	4,422	4,422		
Total equity investments by fair value level	530,301	$ 530,301		
Investments measured at the net asset value (NAV)				
Commingled equity index funds	1,125,816			
Total investments at fair value	$ 1,656,117			
Investments measured at cost				
Cash equivalents	11,670			
Total investments managed	$ 1,667,787			

MPEP Investments Measured at Fair Value

	June 30, 2016	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments measured at the net asset value (NAV)				
Private equity - private equity partnerships	$ 1,055,015			
Total investments measured at the NAV	1,055,015			
Total investments measured at fair value	$ 1,055,015			
Investments measured at cost				
State Street Short Term Investment Fund (STIF)	$ 61,746			
Total investments measured at cost	61,746			
Total investments managed	$ 1,116,761			

MPEP Investments Measured at Fair Value

	June 30, 2015	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Repurchase agreement	$ 7,628		$ 7,628	
Total Investments by fair value level	7,628		7,628	
Investments measured at the net asset value (NAV)				
Commingled equity index funds	12,866			
Private equity - private equity partnerships	1,041,405			
Total investments measured at the NAV	1,054,271			
Total investments measured at fair value	$ 1,061,899			
Investments measured at cost				
State Street Short Term Investment Fund (STIF)	13,939			
Total investments measured at cost	13,939			
Total investments managed	$ 1,075,838			

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MTRP Investments Measured at Fair Value

		Fair Value Measurements Using		
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Direct Real Estate	$ 18,723			$ 18,723
Total Investments by fair value level	18,723			$ 18,723
Investments measured at the net asset value (NAV)				
Core Real Estate	333,648			
Opportunistic	101,712			
Timber	103,849			
Value Added	337,779			
Short Term Investment Pool (STIP)	29,506			
Total investments measured at the NAV	906,494			
Total investments measured at fair value	$ 925,217			

MTRP Investments Measured at Fair Value

		Fair Value Measurements Using		
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Direct Real Estate	$ 19,475			$ 19,475
Total Investments by fair value level	19,475			$ 19,475
Investments measured at the net asset value (NAV)				
Core Real Estate	338,454			
Opportunistic	118,701			
Timber	95,604			
Value Added	298,873			
Total investments measured at the NAV	851,632			
Total investments measured at fair value	$ 871,107			
Investments measured at cost				
Short Term Investment Pool (STIP)	$ 20,184			
Total investments managed	$ 891,291			

AOF Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments				
Treasuries	$ 301,923	$ 301,923		
Agency/Government Related	472,542		$ 472,542	
Asset Backed Securities	68,966		68,966	
Mortgage Backed Securities	3,600		3,600	
Financial-Corporate	351,912		351,912	
Industrial-Corporate	285,488		285,488	
Utility-Corporate	42,080		42,080	
State Street Bank Repurchase Agreement	5,079		5,079	
US Bank Sweep Repurchase Agreement	7,830		7,830	
Total fixed income investments by fair value level	1,539,420	301,923	1,237,497	
Equity index Funds				
Investments measured at the net asset value (NAV)				
Core Real Estate	90,312			
Commingled equity index funds	156,693			
Total investments measured at NAV	247,005			
Total investments at fair value	$ 1,786,425			
Investments measured at cost				
Direct investments				
MT Mortgages and Loans	149,897			
Total investments managed	$ 1,936,322			

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AOF Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments				
Treasuries	$ 274,462	$ 274,462		
Agency/Government Related	495,577		$ 495,577	
Asset Backed Securities	59,451		59,451	
Mortgage Backed Securities	5,293		5,293	
Financial-Corporate	347,541		347,541	
Industrial-Corporate	274,182		274,182	
Utility-Corporate	48,558		48,558	
US Bank Sweep Repurchase Agreement	5,141		5,141	
Total fixed income investments by fair value level	1,510,205	274,462	1,235,743	
Investments measured at the net asset value (NAV)				
Core Real Estate	84,590			
Commingled equity index funds	165,362			
Total investments measured at NAV	249,952			
Total investments at fair value	$ 1,760,157			
Investments measured at cost				
Direct investments				
MT Mortgages and Loans	134,082			
Total investments managed	$ 1,894,239			

STIP Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Fixed income investments				
Treasuries	$ 75,122	$ 75,122		
Asset Backed Commercial Paper	786,486		$ 786,486	
Corporate Commercial Paper	262,021		262,021	
Corporate Variable Rate	467,046		467,046	
Certificates of Deposit Fixed Rate	25,004		25,004	
Certificates of Deposit Variable Rate	500,023		500,023	
U.S. Government Agency Fixed	241,350		241,350	
U.S. Government Agency Variable Rate	263,901		263,901	
Total Investments by fair value level	$ 2,620,953	$ 75,122	$ 2,545,831	
Investments measured at cost				
Money Market Funds (Unrated)	$ 13,143			
Money Market Funds (Rated)	189,003			
Total Investments measured at cost	202,146			
Total investments managed	$ 2,823,099			

As of June 30, 2015, STIP investments were recorded at amortized cost. Therefore, a fair value table is not presented.

RFBP, MDEP, MTIP, STIP and AOF - Fixed income investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Fixed income investments classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. For the year ended June 30, 2015, STIP was reported at amortized cost.

RFBP – Montana Mortgages classified in Level 3 of the fair value hierarchy are present value adjusted.

MTRP – Direct real estate classified in Level 3 of the fair value hierarchy for the fiscal year ended June 30, 2016 are based on appraised value and for the fiscal year ended June 30, 2015 are based on a cost adjusted value.

Pools and AOF – Investments measured at cost are included to account for all investments within each pool and AOF. These assets represent cash equivalents, Montana mortgages and STIP for the fiscal year ended June 30, 2015, as it was reported on an amortized costs basis.

B. The investments measured at NAV for the year ended 2016 and 2015 are further detailed below:

Investments Measured at NAV* (in thousands)	June 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
RFBP				
Short Term Investment Pool	$ 16,449		Daily	1 day
TFIP				
Core Real Estate	$ 177,581		Monthly, quarterly	45-90 days
High Yield Bond Fund	101,815		Monthly	30 days
Short Term Investment Pool	48,310		Daily	1 day
Total investments measured at the NAV	$ 327,706			
MDEP				
Commingled equity index funds	$ 2,154,363		Daily	1 day
MTIP				
Commingled equity index funds	$ 973,032		Daily	1 day
MPEP				
Private equity - private equity partnerships	$ 1,055,015	$ 729,269		
MTRP				
Core Real Estate	$ 333,648		Monthly, quarterly	45-90 days
Opportunistic	101,712	$ 87,583		
Timber	103,849	45		
Value Added	337,779	96,888		
Short Term Investment Pool	29,506		Daily	1 day
Total investments measured at the NAV	$ 906,494			
AOF				
Core Real Estate	$ 90,312		Monthly, quarterly	45-90 days
Commingled equity index funds	156,693		Daily	1 day
Total investments measured at NAV	$ 247,005			

*Fair value as contained within section A tables.

Investments Measured at NAV* (in thousands)	June 30, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
TFIP				
Core Real Estate	$ 166,310		Monthly, quarterly	45-90 days
High Yield Bond Fund	106,234		Monthly	30 days
Total investments measured at the NAV	$ 272,544			
MDEP				
Commingled equity index funds	$ 2,326,730		Daily	1 day
MTIP				
Commingled equity index funds	$ 1,125,816		Daily	1 day
MPEP				
Commingled equity index funds	$ 12,866			
Private equity - private equity partnerships	1,041,405	$ 590,314		
Total investments measured at the NAV	$ 1,054,271			
MTRP				
Core Real Estate	$ 338,454		Monthly, quarterly	45-90 days
Opportunistic	118,701	$ 61,137		
Timber	95,604	8,463		
Value Added	298,873	120,231		
Total investments measured at the NAV	$ 851,632			
AOF				
Core Real Estate	$ 84,590		Monthly, quarterly	45-90 days
Commingled equity index funds	165,362		Daily	1 day
Total investments measured at NAV	$ 249,952			

*Fair value as contained within section A tables.

STIP – This investment program is managed and administered under the direction of the Board as authorized by the Unified Investment Program. It is a commingled pool for investment purposes and requested redemptions from the pool are redeemed the next business day. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment. For the fiscal year ended June 30, 2016, refer to the STIP table included in Section A – Investments Measured at Fair Value for the underlying investments within the fair value hierarchy. For the fiscal year ended June 30, 2015, STIP was reported at amortized cost.

Commingled equity index funds - This type consists of institutional investment funds that invest in domestic equities and funds that invest in international equities. The fair values of the investments of this type have been determined using the NAV per share (or its equivalent) of the investments.

High Yield Bond Fund - This type consists of predominantly U.S. corporate credits, whether in the form of bonds or loans that are rated below investment grade. These assets carry a higher risk of default than investment grade securities and accordingly provide a higher level of income or yield commensurate with that risk. The fair values of the investments of this type have been determined using the NAV per share (or its equivalent) of the investments.

Core Real Estate - This type includes funds that invest primarily in core real estate, which makes equity investments in operating and substantially-leased institutional quality real estate in traditional property types (apartments, office, retail, industrial and hotel) via commingled funds. The primary investment objectives of these core real estate funds

are to invest in real estate that will generate income from predictable sources of revenue and not to realize gains on the underlying assets. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in the partners' capital. Redemption of these investments is restricted based on the availability of cash flow arising from investment transactions, sales, and other fund operations occurring in the ordinary course of business. Therefore, requested redemptions from a fund will be redeemed as funds become available.

Value Added and Opportunistic - This type includes private partnership funds that primarily invest in value added and opportunistic real estate funds. These funds assume more risk than the core real estate funds in order to achieve a greater return on investment. Returns are driven both by current income and by expected capital appreciation. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 7 to 10 years. These investments can never be redeemed with the funds. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in the partners' capital.

Timber - This type includes private partnership funds that primarily invest in timber funds. The underlying assets of these types of funds are typically made of tree farms and managed forest. Returns come from biological growth, upward product class movement, and appreciation in timber and land prices. This investment type receives distributions of generated income and occasionally through the liquidation of the underlying assets of the fund. It is expected that the underlying assets of the funds will be liquidated over 12 to 20 years. These investments can never be redeemed with the funds. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the Plan's ownership interest in the partners' capital.

Private Equity Partnerships - This type includes investments in limited partnerships. Generally speaking, the types of partnership strategies included in this portfolio: venture capital, growth equity, buyouts, special situations, mezzanine, and distressed debt. These investments are considered illiquid. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying partnership investments are realized. It is expected that the underlying assets of the funds will be liquidated over 10 years. It is probable all of the investments in this type will be sold at an amount different from the NAV per share (or its equivalent) of the Boards ownership interest in partners' capital.

8. STIP RESERVE

In November 2007, the STIP Reserve account was established. The STIP reserve account may be used to offset losses within the STIP portfolio. STIP distributes income to STIP participants based on accrued interest and discount amortization, net of fees and STIP reserve expense. The STIP reserve expense is detailed as follows:

STIP Reserve Expense (in thousands)	2016	2015
Other income		
Accrued interest received on SIV related assets (7/1/2015 - 5/31/2016)	$ 535	$ 260
Recovery from sale of SIV related assets	4,097	-
Recovery from SIV related assets (6/01/2016 - 6/30/2016)	320	-
Realized gains on sale of any STIP asset	257	134
Daily reserve accrual	2,928	3,757
Total reserve expense	$ 8,137	$ 4,151
SIV Write off	$ (23,585)	$ -
Change in STIP reserve	$ (15,448)	$ 4,151

In May 2016, the Board wrote-off the entire outstanding SIV balance of $23.6 million against the STIP reserve. Any further flows of either principal or interest will be deemed as recovery monies and be applied to the STIP reserve. Refer to Note 6 – Legal and Credit Risk Section and Note 13 – Subsequent Events for additional detail.

The STIP Reserve balance was $13.1 million and $28.6 million as of June 30, 2016 and June 30, 2015, respectively.

9. COAL TAX LOAN AND MORTGAGE COMMITMENTS

The Board of Investments (BOI) makes firm commitments to fund commercial loans and Veterans' Home Loan Mortgages (VHLM) from the Coal Severance Tax Permanent Trust Fund. These commitments have expiration dates and may be extended according to BOI policies. As of June 30, 2016, the BOI had committed, but not yet purchased, $61.5 million in loans from Montana lenders, compared to $8.2 million as of June 30, 2015. In addition to the above commitments, lenders had reserved $14.1 million for loans as of June 30, 2016, compared to $73.4 million on the same date in 2015. As of June 30, 2016 and 2015, $1.6 million and $1.1 million, respectively, represented lender reservations for the VHLM residential mortgage purchases with no purchase commitments.

The BOI makes reservations to fund mortgages from the state's pension funds. As of June 30, 2016 and 2015, there were no mortgage reservations. All BOI residential mortgage purchases are processed by the Montana Board of Housing (MBOH). The MBOH does not differentiate between a mortgage reservation and a funding commitment.

The BOI has committed resources to the Department of Natural Resource and Conversation (DNRC) to purchase bonds to finance projects. The outstanding commitment to DNRC as of June 30, 2016 was $3.0 million with funding to occur in fiscal year 2017. The outstanding commitment to DNRC as of June 30, 2015 was $1.5 million with funding occurring in fiscal year 2016.

10. AOF MONTANA MORTGAGES AND LOANS

The AOF portfolio includes mortgages and loans, funded by the Permanent Coal Trust as authorized by statute. These mortgages and loans are shown in the following table.

Montana Mortgages and Loans	2016 Carrying Value	2015 Carrying Value
Science and Technology Alliance *	$ 882	$ 1,933
Montana University System	8,004	8,102
Montana Facility Finance	2,152	2,257
Local Government Infrastructure	24,569	21,345
Value-added Loans	261	604
Veterans' Home Loan Mortgages	31,023	27,913
Other Real Estate Owned (OREO) **	-	560
Commercial Loans	$ 83,006	$ 71,368
Total Montana Mortgages and Loans	$ 149,897	$ 134,082

* The Montana Science and Technology Alliance (MSTA) loans include funding for research and development, mezzanine and seed capital loans.

** In June 2014, the lender acquired OREO through a loan foreclosure in which the Board had a 70% participation. This foreclosure resulted in a commercial loan write off. In March 2016, the property was sold.

During FY16, the Board approved three large commercial loans in the amount of $24 million on August 18, 2015, $10 million on November 17, 2015, and $15 million on May 24, 2016. During FY16, the Board wrote down $922 thousand in MSTA loans.

11. BOND / LOAN GUARANTEES

As of June 30, 2016, loan guarantees provided by the Coal Severance Tax Permanent Trust, as authorized by statute, to the Enterprise Fund and the Montana Facility Finance Authority total $177.2 million. Board exposure to bond issues of the Enterprise Fund is $97.3 million while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is $79.9 million.

As of June 30, 2015, loan guarantees provided by the Coal Severance Tax Permanent Trust, as authorized by statute, to the Enterprise Fund and the Montana Facility Finance Authority total $193.3 million. Board exposure to bond issues of the Enterprise Fund is $106.4 million while exposure to bond issues, surety bonds and designated loans of the Facility Finance Authority is $86.9 million.

12. POOL RESTRUCTURE

On June 30, 2016, the Board sold its share in two MPEP limited partnerships to an outside 3rd party in a secondary market sale. The proceeds of these sales were $26 million.

During fiscal year 2016, the first qualifying local government participant invested in the TFIP.

For the year ended June 30, 2015, the eligible participants within MDEP were the nine retirement funds and two small trust funds. During fiscal year 2016, the MDEP small trusts were moved into either the TFIP or the STIP.

On October 6, 2015, the Board based on staff recommendations approved that for financial reporting purposes the STIP portfolio be reported on a NAV or “fair value” basis beginning with the fiscal year ended June 30, 2016. Prior to this change, the STIP portfolio was reported on a “book” or amortized cost basis within the financial statements.

On August 3, 2015, the Board terminated one manager in RFBP. A transition manager was hired to liquidate the portfolio and transferred cash and securities to the Core Internal Bond Portfolio. Market value of the transfer was approximately $105 million.

On June 1, 2015, the Board funded three new MTIP external managers for a total of approximately $286 million. The source of these funds was from the termination of three external manager accounts, totaling approximately $370 million. In addition to funding the three new external manager accounts, it added $10 million to an existing external manager, and the balance, approximately $74 million, was added to an existing external commingled index fund account.

13. SUBSEQUENT EVENTS

From July 1 through December 12, 2016, the Board received recovery payments associated with AFF Financing LLC holding of $2.5 million, representing $2.4 million in principal and $60 thousand in interest. For the same period, the Board received recovery payments associated with the Orion Finance collective holding of $572 thousand with $521 thousand and $51 thousand applied to principal and interest, respectively. Both the principal and interest was treated as recovery money and applied to the reserve. Please see the STIP Legal and Credit Risk section of Note 6 for further information on AFF and Orion.

Since June 30, 2016, an additional $50 million was committed to MPEP fund managers and an additional $45 million was committed to MTRP fund managers.

The Board exercised the United States Department of Agriculture - Rural Development’s guarantee on two commercial loans outstanding in the principal amount of $6.9 million. Payment was received October 19, 2016.

The Board is in the process of working through a bankruptcy trustee to begin foreclosure on one commercial loan with an outstanding principal amount of $1.2 million.

During July 2016, the Board terminated one manager in MDEP. A transition manager was hired to liquidate the portfolio and cash was transferred to another fund within the portfolio. The market value of the transfer was approximately $63 million.

On August 16, 2016, the Board approved two commercial loans for a total of $3.1 million.

STATE OF MONTANA BOARD OF INVESTMENTS
CONSOLIDATED UNIFIED INVESTMENT PROGRAM FINANCIAL STATEMENT

During October 2016, the Board terminated one manager in MDEP. A transition manager was hired to liquidate the portfolio. The market value of the liquidation was approximately $27 million.

As of October 31, 2016, STIP will no longer participate in the Security Lending program.

Independent Auditor's Report and Enterprise Fund Program Financial Statements

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

Introduction
We have audited the accompanying Statement of Fund Net Position of the Montana Board of Investments' (board) Enterprise Fund as of June 30, 2016, and 2015, the related Statement of Revenues, Expenses and Changes in Fund Net Position and the Statement of Cash Flows for each of the fiscal years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Montana Board of Investments' Enterprise Fund as of June 30, 2016, and 2015, and the changes in net position and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Montana Board of Investments' Enterprise Fund financial statements are intended to present the financial position, changes in financial position, and cash flows of only the portion of the financial reporting entity of the state of Montana that are attributed to the transactions of the Enterprise Fund. They do not purport to, and do not present fairly the financial position of the state of Montana as of June 30, 2016, or June 30, 2015, or the changes in its financial position and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of the board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 16, 2016

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF NET POSITION AS OF JUNE 30, 2016 AND 2015
(in thousands)

Assets	2016	2015
Current assets:		
Cash and cash equivalents (Note 1)	$ 13,887	$ 20,865
Interest receivable	310	270
Notes/loans receivable (Note 1)	10,850	13,862
Interfund notes/loans and interest receivable (Note 1)	2,425	1,852
Component Unit notes/loans and interest receivable (Note 1)	2,117	2,223
Short-term investments at fair value (Notes 1, 2)	4,407	3,132
Security lending cash collateral (Note 4)	0	1
Total current assets	33,996	42,205
Noncurrent assets:		
Restricted investments at fair value (Notes 1, 2)	4,994	5,124
Long-term investments at fair value (Notes 1, 2)	0	3
Notes/loans receivable (Note 1)	39,778	40,161
Interfund notes/loans and interest receivable (Note 1)	10,882	9,646
Component Unit notes/loans receivable (Note 1)	14,701	14,957
Equipment	4	4
Accumulated depreciation	(2)	(2)
Total noncurrent assets	70,357	69,893
Total assets	104,353	112,098
Pension deferred outflows (Notes 10, 13)	36	23
Liabilities		
Current liabilities:		
Accounts payable	1	0
Due to other funds	1	0
Interentity loan from other fund	1,207	0
Accrued expenses	21	18
Accrued interest payable	169	82
Security lending obligations (Note 4)	0	1
Compensated absences (Note 9)	35	30
Current bonds/notes payable (Note 5)	97,340	106,445
Total current liabilities	98,774	106,576
Noncurrent liabilities		
Compensated absences (Note 9)	25	28
Arbitrage rebate tax payable	17	0
OPEB implicit rate subsidy (Note 12)	79	69
Net pension liability (Notes 10, 13)	292	245
Total noncurrent liabilities	413	342
Total liabilities	99,187	106,918
Pension deferred inflows (Notes 10, 13)	25	63
Net position		
Net investment in capital assets	2	2
Restricted (Note 1)	1,051	1,670
Unrestricted	4,124	3,468
Total net position (Note 14)	$ 5,177	$ 5,140

The accompanying notes are an integral part of these financial statements.

STATE OF MONTANA BOARD OF INVESTMENTS
ENTERPRISE FUND FINANCIAL STATEMENT

STATE OF MONTANA BOARD OF INVESTMENTS ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015
(in thousands)

Operating revenue	2016	2015
Reimbursements	$ 34	$ 30
Investment income	109	99
Financing income	1,085	846
Total operating revenue	1,228	975
Operating expenses		
Personal services (Note 10)	365	322
Contracted services	31	25
Supplies and materials	9	6
Communications	6	7
Travel	4	4
Rent	49	48
Indirect and other costs	58	51
OPEB (Notes 10, 12)	13	15
Pension expense (Notes 10, 13)	24	19
Depreciation expense	1	1
Arbitrage rebate tax expense (Note 8)	17	(4)
Debt service		
Interest expense	332	195
Loan interest	1	0
Trustee fee expense	72	72
Other debt service expense	216	228
Total operating expenses	1,198	989
Operating income	30	(14)
Nonoperating revenue		
Pension revenue (Notes 10, 13)	7	7
Nonoperating income	7	7
Change in fund net position	37	(7)
Total fund net position, July 1, as previously reported	5,140	5,438
Prior period adjustment (Note 10)	0	5
Adjustments to beginning net position (Notes 10, 13)	0	(296)
Total fund net position, July 1, as restated	5,140	5,147
Total fund net position, June 30 (Note 14)	$ 5,177	$ 5,140

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(in thousands)

	2016	2015
Cash flows from operating activities:		
Reimbursements	$ 34	$ 30
Payments to suppliers for goods and services	(156)	(140)
Payments to employees	(392)	(343)
Other revenue	7	7
Net cash (used for) operating activities	(507)	(446)
Cash flows from non-capital financing activities:		
Payment of principal and interest on bonds and notes	(9,638)	(476)
Net pension deferred inflows/outflows (Note 13)	0	(40)
Proceeds from interentity loan	1,207	0
Net cash (used for) provided by non-capital financing activities	(8,431)	(516)
Net cash (used for) capital and related financing activities	0	0
Cash flows from investing activities:		
Collections for principal and interest on loans	33,056	25,592
Cash payments for loans	(30,063)	(28,210)
Purchase of deposits/investments	(10,404)	(1,596)
Proceeds from sales or maturities of deposits/investments	9,273	1,571
Interest on deposits/investments	98	101
(Payment for) refund from arbitrage rebate tax	0	(5)
Net cash (used for) provided by investing activities	1,960	(2,547)
Net (decrease) increase in cash and cash equivalents	(6,978)	(3,509)
Cash and cash equivalents, July 1	20,865	24,374
Cash and cash equivalents, June 30	$ 13,887	$ 20,865

STATE OF MONTANA BOARD OF INVESTMENTS
ENTERPRISE FUND FINANCIAL STATEMENT

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(in thousands)

	2016	2015
Reconciliation of net income to net cash (used for) operating activities:		
Net operating income	$ 30	$ (14)
Adjustments to reconcile net income to net cash (used for) operating activities		
Depreciation	1	1
Other revenue	7	7
Interest on investments	(109)	(99)
Financing income	(1,085)	(846)
Interest expense	621	495
Arbitrage rebate tax expense (Note 8)	16	(4)
Change in assets and liabilities:		
(Decrease) increase in accounts payable	1	0
(Decrease) increase in other payables	3	(1)
(Decrease) increase in due to other funds	1	(15)
(Decrease) increase in compensated absences payable	3	(14)
(Decrease) increase in net pension liability (Note 13)	46	(10)
Increase (decrease) in OPEB implicit rate subsidy (Notes 10, 12)	10	14
Increase (decrease) in pension deferred inflows/outflows (Note 13)	(52)	40
Total adjustments	(537)	(432)
Net cash (used for) operating activities	(507)	(446)
Schedule of noncash transactions:		
Increase/(decrease) in fair value of investments	(26)	(25)
Total noncash transactions	$ (26)	$ (25)

The accompanying notes are an integral part of these financial statements.

NOTES TO ENTERPRISE FUND FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Accounting

The Board uses the accrual basis of accounting for the Enterprise Fund. Under the accrual basis of accounting, expenses are recorded when incurred and revenues are recorded when earned. The financial statements are prepared from the Statewide Accounting, Budgeting, and Human Resource System (SABHRS) and information contained in the bond trustee statements. These financial statements are intended to present the financial position and changes in financial position of only the portions of the financial reporting entities for the State of Montana that are attributed to the transactions of the Economic Development Bond and Municipal Finance Consolidation programs, known as the Enterprise Fund administered by the Board.

b. Presentation of Programs

The Board uses the Enterprise Fund to account for its programs created under the Economic Development Bond Act and the Municipal Finance Consolidation Act.

Economic Development Bond Act programs include:

- The Stand Alone Economic Development Bond Program provides access to limited economic development projects through the issuance of conduit debt.

- The Conservation Reserve Enhancement Program (CRP), created in 1990 by issuing bonds, allows farmers to receive a lump sum payment by assigning their federal CRP contract to the Board. The farmers under contract must comply with seeding and other requirements. The Montana Trust Funds Investment Pool funded the Conservation Reserve Enhancement Program.

Municipal Finance Consolidation Act programs include:

- The INTERCAP loan program provides funds to eligible Montana governments to finance capital expenditures for up to fifteen years.

- The Irrigation District Pooled Loan Program provided funds for the Board to purchase the refunding bonds from participating irrigation districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans.

- Qualified Zone Academy Bond (QZAB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The federal government pays the interest on the QZABs in the form of an annual tax credit to a bank (or other eligible financial institution) that holds the QZAB. The Board acts as a legal funding conduit only and is not pecuniary liable for the repayment of the bonds.

- Qualified School Construction Bond (QSCB) Program provides a financial instrument that is a different form of subsidy from traditional tax-exempt bonds. The revenues of the borrower are pledged to repay the bonds. The Board acts as a legal funding conduit only and is not pecuniary liable for the repayment of the bonds.

c. Fixed Asset Depreciation

The equipment fixed assets recorded in the Enterprise Fund are depreciated on a straight-line basis value, in accordance with state policy.

d. Receivables

The Enterprise Fund notes/loans receivables of $80.601 million as of June 30, 2016 and $82.584 million as of June 30, 2015, represent loans made to state agencies, local governments, and the state university system. The Enterprise Fund notes/loans are classified in three categories as follows:

1) Notes/loans receivable from local governments and Montana universities.
2) Interfund notes/loans receivable from state agency governments.
3) Component Unit notes/loans receivable from certain state agencies and university units for which the State is financially accountable.

The interest accruals from state agencies and university units on the Interfund notes/loans receivable total $154 thousand and $117 thousand as of June 30, 2016 and 2015, respectively.

e. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Enterprise Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents, as identified in the Statement of Net Position, are as follows: (in thousands)

(in thousands)		June 30, 2016		June 30, 2015
Cash in treasury	$	17	$	11
Short Term Investment Pool (STIP)		102		311
First American Government Obligation Fund		9,660		17,053
First American Prime Obligation Fund		4,108		3,490
Total Cash and Cash Equivalents	$	13,887	$	20,865

The Enterprise Fund invests its operational cash in the Board's Short Term Investment Pool (STIP), an external investment pool. An external investment pool commingles the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. STIP is managed to preserve principal while providing 24-hour liquidity for state agency and local government participants. Funds may be invested for one or more days. The STIP investments and the income are owned by the participants and are managed on their behalf by the Board. For the fiscal year ending June 30, 2016, STIP is presented in the Statement of Net Asset Value at fair value. The proposal for GASB Statement 79 – Certain External Investment Pools and Pool Participants required the Board to elect between accounting for STIP assets in one of two allowable methods: either to continue to account for securities within the STIP pool at an amortized cost basis or change to a fair value basis. In October 2015, staff recommended and the Board approved that the STIP portfolio for financial reporting purposes would be on a fair value basis. Based on this allowable election, the Board implemented GASB Statement 79 as it pertained to recording on a fair value basis. For the fiscal year ending June 30, 2015, STIP is presented in the Statement of Net Asset Value at "book" or amortized cost.

f. Net Position Restricted

Net Position represents the accumulated net profits of the Enterprise Fund programs. The Statement of Net Position for the Enterprise Fund reports a restricted net position. A net position is reported as restricted when constraints placed on the net position use are either:

a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
b. Imposed by law through constitutional provisions or enabling legislation.

The net position of all Enterprise Fund programs with the exception of MEDB (Montana Economic Development Bonds) Guarantee Fund Account, MEDB Guarantee CRP Note Reserve, MEDB Contingency Account, and CRP are restricted under bond indentures governing the use of these funds.

g. Investments

Investments are presented in the Statement of Net Position at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied by the Board's trustee. Amortized cost, or carrying value, represents the original cost, adjusted for premium and discount amortization where applicable. Premiums and discounts are amortized/accreted using the straight-line method to the maturity date of the securities. The Net Position for fiscal years ended June 30, 2016 and June 30, 2015 include $64 thousand and $38 thousand, respectively, in unrealized appreciation (depreciation) in reporting the fair value of the Enterprise Fund investments.

h. New Accounting Guidance Implemented

For the year ended June 30, 2016, the Board implemented GASB Statement 72, Fair Value Measurement and Application (GASB 72). This Statement addresses accounting and financial reporting issues related to fair value measurement. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

For the year ended June 30, 2015, the Board implemented the provisions of GASB Statement 68, Accounting and Financial Reporting for pensions (GASB 68). This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to pension plan obligations for both employers and nonemployer contributing entities. GASB 68 defines the related note disclosures and required supplementary information requirements.

2. INVESTMENT RISK DISCLOSURES

The investment risk disclosures are described in the following paragraphs.

The Enterprise Fund deposits and investments are restricted by the bond trust indentures to the following: government and agency obligations, certificates of deposits, repurchase agreements, and investment agreements. Deposits and investments must be made with Montana banks or in the Short Term Investment Pool (STIP) administered by the Board.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Enterprise Fund's U.S. government direct-backed securities, consisting of U.S. Treasury notes and bills, are guaranteed directly by the U.S. government. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality per GASB Statement No. 40. The credit ratings presented in the table below are provided by the S&P rating service. If an S&P rating is not available, a Nationally Recognized Securities Rating Organization (NRSRO) rating is used. The Enterprise Fund does not have a formal investment policy addressing credit risk for Permitted Investments as provided in the Indenture or investment in the STIP. Permitted Investments, as described in the Indenture, include "either (i) long term obligations of such bank, trust company or association are rated in one of the three highest investment category of the Standard & Poor's Corporation or Moody's Investor Service Inc., which investment category shall not be less than the prevailing rate on the Bonds or (ii) the deposits are continuously secured as to principal, but only to the

extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, or any successor to either, of the Federal Deposit Insurance Corporation (FDIC)." The Board's STIP investment policy specifies that STIP securities have a minimum of two credit ratings as provided by Standard and Poor's, Moody's, or Fitch that meet the minimum as stated in the STIP policy depending on the type of investment.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Board will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Cash – Custodial risk for cash is the risk that, in the event of the failure of the custodial financial institution, the cash or collateral securities may not be recovered from an outside party. The securities used as collateral are held by U.S. Bank's Trust Department in the name of the Board.

Investments - As of June 30, 2016 and 2015, Enterprise Fund securities were recorded in book entry form in the name of U.S. Bank National Association as Trustee for the Montana Board of Investments by specific account. The Enterprise Fund does not have a policy addressing custodial credit risk for deposits and investments, specifically, uninsured, collateralized deposits.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of any single investment per issuer name. The Enterprise Fund investments directly issued or explicitly guaranteed by the U.S. government and investments in mutual funds are excluded from the concentration of credit risk requirement. The STIP Investment Policy limits concentration of credit risk by limiting portfolio investment types to 3% in any issuer with the exception of US Treasury and US Agency securities as well as any repurchase agreements with a financial institution. As of June 30, 2016 and 2015, STIP concentration risk was within the policy as set by the board.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Enterprise Fund does not have a formal investment policy addressing interest risk for Permitted Investments as provided in the Indenture or the cash equivalent investment in the STIP. The Enterprise Fund's Bond Indenture does not address interest rate risk. In accordance with GASB Statement No. 40, the Board has selected the effective duration method to disclose interest rate risk.

According to the STIP Investment Policy "the STIP portfolio will minimize interest rate risk by:

1) Structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations thereby normally avoiding the need to sell securities on the open market prior to maturity;
2) Maintaining a dollar-weighted average portfolio maturity (WAM) of 60 days or less (for this purpose, the date to the next coupon reset date will be used for all floating or variable rate securities; and
3) STIP will maintain a reserve account."

State of Montana Enterprise Fund investments are categorized below to disclose credit and interest rate risk as of June 30, 2016 and June 30, 2015. Credit risk is disclosed using the weighted credit quality rating by investment type. Interest rate risk is disclosed using weighted effective duration as calculated by Board staff. If a bond investment type is unrated, the quality type is indicated by NR (not rated). The credit quality ratings have been calculated excluding non-rated investment types. NA (not applicable) indicates if duration has not been calculated. Both the credit quality ratings and duration have been calculated excluding cash equivalents with credit ratings of NR or NA duration calculations. There were no derivative transactions during the above fiscal years for investments held by the trustee.

Credit Quality Rating and Effective Duration as of June 30, 2016
(in thousands)

Security Investment Type		Fair Value	Credit Quality Rating*	Effective Duration*
First American Government Obligation Fund	$	9,660	AAA	0.07
First American Prime Obligation Fund		4,108	AAA	0.02
Short Term Investment Pool (STIP)**		102	NR	0.11
U.S. Government Indirect Obligations		9,401	AA+	1.53
Total Investments	$	23,271	AAA	0.65
Securities Lending Collateral Investment Pool	$	0	NR	0.09

*Credit Quality Rating and Effective Duration are weighted.
**Beginning with the period of June 30, 2016, the STIP portfolio is shown at fair value. For the period prior to June 30, 2016, the STIP portfolio was shown at amortized cost.

Credit Quality Rating and Effective Duration as of June 30, 2015
(in thousands)

Security Investment Type		Fair Value	Credit Quality Rating*	Effective Duration*
First American Government Obligation Fund	$	17,052	AAA	0.13
First American Prime Obligation Fund		3,491	AAA	0.12
Short Term Investment Pool (STIP)		314	NR	0.14
U.S. Government Indirect Obligations		8,256	AA+	1.85
Total Investments	$	29,113	AAA	0.62
Securities Lending Collateral Investment Pool	$	1	NR	**

*Credit Quality Rating and Effective Duration are weighted.
**As of June 30, 2015, the Securities Lending Quality Trust liquidity pool had an average duration of .08 and an average weighted final maturity of .32 for U.S. dollar collateral. In March 2015, all holdings in the Securities Lending Duration Pool were sold.

3. FAIR VALUE MEASUREMENT

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles as follows:

- Level 1—Quoted prices for identical assets or liabilities in active markets.
- Level 2—Prices determined using inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 – Prices are determined using unobservable inputs.

A. For the Enterprise Fund, the Board has the following recurring fair value measurements as of June 30, 2016 and 2015:

STATE OF MONTANA BOARD OF INVESTMENTS
ENTERPRISE FUND FINANCIAL STATEMENT

Enterprise Fund Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Short-term investments at fair value				
US Treasury Obligations	$ 2,822	$ 2,822		
US Agency Obligations	$ 1,585		$ 1,585	
Restricted investments at fair value				
US Treasury Obligations	$ 1,429	$ 1,429		
US Agency Obligations	$ 3,565		$ 3,565	
Total investments by fair value level	$ 9,401	$ 4,251	$ 5,150	$ -
Investments measured at the net asset value (NAV)				
Short Term Investment Pool (STIP)	102			
Total investments at fair value	$ 9,503			
Investments measured at cost				
First American Government Obligation Fund	9,660			
First American Prime Obligation Fund	4,108			
Total investments managed	$ 23,271			

Enterprise Fund Investments Measured at Fair Value
(in thousands)

		Fair Value Measurements Using		
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable (Level 3)
Investments by fair value level				
Short-term investments at fair value				
US Treasury Obligations	$ 1,593	$ 1,593		
US Agency Obligations	$ 1,539		$ 1,539	
Restricted investments at fair value				
US Agency Obligations	$ 5,124		$ 5,124	
Long-term investments at fair value	$ 3			$ 3
Total investments by fair value level	8,259	$ 1,593	$ 6,663	$ 3
Total investments at fair value	$ 8,259			
Investments measured at cost				
First American Government Obligation Fund	17,053			
First American Prime Obligation Fund	3,490			
Short Term Investment Pool (STIP)	311			
Total investments managed	$ 29,113			

B. The investments measured at NAV for the year ended 2016 are further detailed below:

Enterprise Fund Investments Measured at NAV	June 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Short-Term Investment Pool (STIP)	$ 102		Daily	1 day

Long-term investments at fair value as of June 30, 2015 in significant unobservable (Level 3) inputs are reported at cost adjusted fair value.

As of June 30, 2015, STIP investments were recorded at amortized cost. Therefore, a fair value table is not presented.

Enterprise Fund - US Treasury Obligations classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. US Agency Obligations classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

STIP – This investment program is managed and administered under the direction of the Board as authorized by the Unified Investment Program. It is a commingled external investment pool for investment purposes and requested redemptions from the pool are redeemed the next business day. The fair values of the investments in this category have been determined using the NAV per share (or its equivalent) of the investment. For the fiscal year ended June 30, 2016, refer to the STIP table included in Section A – Investments Measured at Fair Value for the underlying investments within the fair value hierarchy. For the fiscal year ended June 30, 2015, STIP was reported at amortized cost.

4. SECURITY LENDING

The Enterprise Fund is a participant in the Board's Short Term Investment Pool (STIP). In fiscal years 2016 and 2015, security lending transactions were recorded for STIP.

The Board is authorized by law to lend its securities and has contracted with the custodial bank, State Street Bank and Trust, "the Bank," to lend the Board's securities on a collateralized basis to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Bank is required to maintain collateral equal to 102 percent of the fair value of domestic securities and 105 percent of the fair value of international securities while the securities are on loan. On any day, including June 30, the markets may move in a positive or negative direction resulting in under or over collateralization. The Bank compensates for market movement by recalculating on the following business day to meet the collateralization requirements. The Board and the Bank split the earnings, 80/20% respectively, on security lending activities. The Board retains all rights and risks of ownership during the loan period.

During fiscal years 2016 and 2015, the Bank lent Board public securities and received as collateral: U.S. dollar cash; U.S. Government and government sponsored agency securities; U.S. corporate debt securities and structured securities rated AA-/Aa3 or higher; sovereign debt securities of the G10 nations; and debt securities issued by certain supranational agencies. The Bank does not have the ability to sell collateral securities unless the borrower defaults.

The Board imposed no restrictions on the amount of securities available to lend during fiscal years 2016 and 2015. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the period that resulted in a declaration and notice of Default of the Borrower. There were no losses during fiscal years 2016

and 2015 resulting from a borrower default.

During fiscal years 2016 and 2015, the Board and the borrowers maintained the right to terminate all securities lending transactions on notice. Security lending collateral is invested in one of two investment funds, the Quality D Short Term Investment Fund or the Security Lending Quality Lending Trust Fund. Each fund is comprised of a liquidity pool. The cash collateral received for each loan was invested, together with the cash collateral of other qualified plan lenders. STIP was the only Enterprise Fund investment with exposure to security lending transactions and STIP was invested in only the Securities Lending Quality Trust Fund. In March 2015, the Board sold all of the holdings within the duration pool, which resulted in a loss of $26 thousand. Security lending income offset the entire amount of the loss within the investment fund. Because the securities lending transactions were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral received from the borrower. At year-end 2016 and 2015, State Street Bank indemnified the Board's credit risk exposure to borrowers. The average duration and average weighted final maturity for each investment fund is as follows: (in thousands)

	Liquidity Pool	
Security Lending Quality Trust	FY16	FY15
Average Duration	32 days	30 days
Average Weighted Final Maturity	92 days	115 days

5. BONDS PAYABLE

As of June 30, 2016 and June 30, 2015, the Enterprise Fund reported no long term bonds/notes payable.

Current Bonds Payable

The Enterprise Fund is authorized to issue INTERCAP bonds under the Municipal Finance Consolidation Act. These bonds may not aggregate more than $190 million as amended by the 2007 Legislature. The INTERCAP bonds provide funds for the Board to make loans to eligible government units. The bonds are not a debt or liability of the State of Montana. The bonds are limited obligations of the Board payable solely from: a) repayments of principal and interest on loans made by the Board to participating eligible Montana governments; b) investment income under the Indenture; and c) an irrevocable pledge by the Board. The Board has no taxing power. These bonds may be redeemed, at the bondholder's option, any March 1, prior to maturity. The Board did not enter into an arms-length financing agreement to convert the bonds "put," or tender, and were not resold into some other form of long-term obligation. Accordingly, these bonds, considered demand bonds, are recorded as current liabilities of the Enterprise Fund.

The INTERCAP obligations at June 30, 2016 and June 30, 2015, are listed below:
(in thousands)

Series	Amount Issued	Interest Range	Maturity	Balance June 30, 2016	Balance June 30, 2015
1997	$ 10,000	Variable	2017	$ -	$ 9,035
1998	12,500	Variable	2018	11,695	11,695
2000	15,000	Variable	2025	14,335	14,335
2003	15,000	Variable	2028	14,430	14,430
2004	18,500	Variable	2029	18,130	18,200
2007	15,000	Variable	2032	14,775	14,775
2010	12,000	Variable	2035	11,975	11,975
2013	12,000	Variable	2038	12,000	12,000
Total INTERCAP Debt	$ 110,000			97,340	106,445
Current Bonds Payable				$ 97,340	$ 106,445

6. OTHER DEBT

QZAB Debt

In this program, the Board is authorized to issue Qualified Zone Academy Bonds (QZAB), under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues, and in some cases the taxing power, of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as QZAB conduit (no-commitment) debt are listed below (in thousands):

Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2016	Balance June 30, 2015
Philipsburg Schools	December 2003	12/10/17	$ 2,000	$ 2,000	$ 2,000
Cut Bank Elementary	August 2005	08/18/21	825	825	825
Cut Bank High School	August 2005	08/18/21	625	625	625
Bozeman Public Schools	December 2006	12/19/15	1,459	0	1,459
Billings School	December 2008	06/15/18	773	773	773
Lewistown Elementary	June 2009	06/15/17	2,087	2,087	2,087
Kalispell Elementary	October 2013	06/15/28	620	620	620
Kalispell High School	October 2013	06/15/28	1,587	1,587	1,587
Total QZAB conduit debt			$ 9,976	$ 8,517	$ 9,976

QSCB Debt

In this program, the Board is authorized to issue Qualified School Construction Bonds (QSCB), under the Municipal Finance Consolidation Act, as conduit (no commitment) debt. The revenues of the borrower are pledged to repay the bonds. Because the Board has no obligation for this debt, these bond issues are not reflected on the Board's financial statements. Bonds issued by the Board as QSCB conduit (no-commitment) debt are listed below (in thousands):

Project	Issue Date	Maturity Date	Amount Issued	Balance June 30, 2016	Balance June 30, 2015
Great Falls High Schools	April 2011	12/15/25	$ 1,855	$ 1,359	$ 1,469
Great Falls Elementary	April 2011	12/15/25	6,510	4,771	5,157
Total QSCB conduit debt			$ 8,365	$ 6,130	$ 6,626

7. INTERCAP PROGRAM COMMITMENTS

Funding INTERCAP loans

The Board makes firm commitments to fund loans from the INTERCAP loan program. The Board’s outstanding commitments to eligible Montana governments, as of June 30, 2016 and 2015, total $44.1 million and $38.0 million, respectively.

Montana Permanent Coal Tax Trust Fund

In November 2015, the Board authorized the issuance of up to a $8.5 million bond anticipation note (BAN) in anticipation of a new bond issuance in 2017 to provide liquidity to the program. The BAN was purchased and funded by the Permanent Coal Tax Trust Fund on April 15, 2016 with a stated maturity of March 15, 2017.

As of June 30, 2016, the Enterprise Fund recorded an interentity loan payable to the Permanent Coal Tax Trust Fund in the amount of $1.2 million related to the BAN. The proceeds were used to fund two INTERCAP loan draws from a local government. For further information, see Note 15 – Subsequent Events.

8. ARBITRAGE

The fiscal year 2015 Arbitrage Rebate Tax Expense represents an over accrual of estimated arbitrage liability as calculated by a contracted vendor.

9. COMPENSATED ABSENCES AND PERSONAL SERVICES

Compensated absences liabilities represent the unpaid leave balances for employees at fiscal yearend. The liability identifies the vacation, sick leave and exempt compensatory time which state employees have earned but not taken. Annually, the compensated absences liabilities balances are adjusted between prior year and current year balances with an offset to personal services expense.

10. PRIOR PERIOD ADJUSTMENT

The June 30, 2015 prior period adjustment increasing net position by $5 thousand and related increases to personal services for $2 thousand and OPEB expense for $3 thousand is associated with the OPEB restatement that occurred in FY14. (Refer to Note 12 – Other Post-Employment Benefits (OPEB)).

The adjustment to decrease beginning net position by $296 thousand in FY15 is associated with the implementation of GASB Statement 68 Accounting and Financial Reporting for Pensions. There were several other adjustments associated with this change in FY15. The other adjustments are: increases in pension deferred outflows of $23 thousand and pension deferred inflows of $63 thousand, an increase in pension expense of $19 thousand and a decrease in personal services expense of $23 thousand and finally increases to pension revenue of $7 and pension liability of $245 thousand. (Refer to Note 13 – Pension Footnote.)

11. NON-PENSION EMPLOYEE BENEFITS PLANS

Deferred Compensation Plan
The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries.

Health Care
Board staff and dependents are eligible to receive medical and dental health care through the State Group Benefits Plan administered by the Montana Department of Administration Health Care & Benefits Division. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Eligible dental claims are reimbursed at 50% to 100% of the allowable charges, depending on the services provided. The State funds claims on a pay-as-you-go basis and, in addition, maintains a claims fluctuation reserve equivalent to three months projected claims and operating costs. Montana Department of Administration established premiums vary depending on family coverage and eligibility, as shown below:

Premiums	CY 2016	CY 2015
Medical	$963 - $1,260	$845 - $1,134
Dental	$41.10 - $70	$22 - $68.50
Optional Vision Hardware	$7.64 - $22.26	$5.76 – 16.76

12. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The State of Montana provides optional post-employment health care benefits in accordance with Montana Code Annotated (MCA), Title 2, Chapter 18, Section 704, to employees and dependents that elect to continue coverage and pay administratively established premiums. Coverage is provided through the State Group Benefits Plan.

The Board follows GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires the following disclosure of employer liability for retiree medical subsidies and other post-employment benefits. For financial statement reporting purposes, the State Group Benefits Plan is considered an agent multiple-employer plan and the Board is considered to be a separate employer participating in the plan. Each participating employer is required by GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, to disclose additional information regarding funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

The State Group Benefits Plan allows retirees to participate as a group, at a rate that does not cover all of the related costs. Retiree participation results in the reporting of an "implied rate" subsidy in the Board's financial statements and footnotes as OPEB liability. The OPEB liability is disclosed for financial statement purposes but does not represent a legal liability of the State Group Benefits Plan or the Board.

Post-employment Healthcare Plan Description

Board staff and dependents are eligible to receive health care through the State Group Benefits Plan administered by the Montana Department of Administration. In accordance with Section 2-18-704 MCA, the State provides optional post-employment medical, vision and dental health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees.

In addition to the employee benefits described in Note 11- NonPension Employee Benefit Plans, the following post-employment benefits are provided:

Montana Department of Administration established retiree medical premiums vary depending on family coverage and eligibility, as shown on the below table. Basic life insurance in the amount of $14,000 is provided until age 65 at a cost of $1.90 per month to the retiree. The State reimburses all validated medical claims net of member obligations (annual deductibles and coinsurance of the members' selected medical plan). Dental claims are reimbursed up to $600 for diagnostic/preventative and $1,800 for repair/reconstructive services annually. The State acts as secondary payer for retired Medicare-eligible claimants.

Retiree Premiums	CY 2016	CY 2015
Non-Medicare Medical	$1,043 - $1,506	$931 - $1,345
Medicare Medical	$416 - $863	$371 - $771
Dental	$41.10 - $70	$22 - $68.50
Optional Vision Hardware	$7.64 - $22.26	$5.76 – $16.76

Benefits Not Included in the Valuation

Retirees pay 100 percent of dental premiums. Thus, there is no liability for dental valued in this valuation. The vision benefit is fully-insured and retirees pay 100 percent of the cost. Thus, there is no liability for vision valued in this valuation. The life insurance benefit is a fully-insured benefit that is payable until age 65 with the retiree required to pay the full premium. There is no liability valued in this valuation for the retirees, though the required premium is an active/retiree blended premium. This liability would be insignificant to the overall results of this valuation.

Funding Policy

The following estimates were prepared for the Department of Administration and the resulting State of Montana Actuarial Valuation of Other Post-Employment Benefits Plan (plan) contains the Board's data and is available through:

Montana Department of Administration,
State Financial Services Division
Rm 255, Mitchell Bldg.,
125 N Roberts St
PO Box 200102,
Helena, MT 59620-0102.

GASB Statement No. 45 requires the plan's participants, including the Board, to report each year the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year of retiree health care costs and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The 2016 and 2015 ARC is calculated for all the plan's participants and then individually allocated to individual participants. The Board's ARC is estimated at $12 thousand per year, respectively for both June 30, 2016 and 2015, and is based on the plan's current ARC rate of 4% of participants' annual covered payroll for each year. The Board's 2016 and 2015 ARC is equal to an annual amount required each year to fully fund the liability over 30 years.

The amount of the estimated OPEB actuarial accrued liability is determined in accordance with the GASB Statement No. 45, as of June 30, 2016 and 2015 the liability is estimated at $79 and $69 thousand for the Board, respectively. The actuarial accrued liability is the present value of future retiree benefits and expenses.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows the actuarial value of plan assets and liabilities.

In the December 31, 2015, actuarial valuation, the projected unit cost funding method was used for the State. The actuarial assumptions included a 4.25% discount rate and a 2.50% payroll growth rate. The projected annual healthcare cost trend rate is initially 3.4% for medical and 10.8% prescription drugs. The decrease to the medical costs trend rate in plan year 2015 is based on actual trend data instead of estimated trend rates. The medical rate increases to an actuarially determined 9.5% in 2016. Both medical costs and prescription drugs are reduced by decrements to a rate of 5.0%, medical costs after eleven years and prescription drugs after six years. The unfunded actuarial accrued liability is amortized following a 30-year level percentage of payroll amortization schedule on an open basis beginning for calendar year 2015.

The State finances claims on a pay-as-you-go basis and does not advance-fund the OPEB liability. Therefore, the following cost information shows no plan assets made by the Board.

Annual OPEB Cost:

For 2016, the Board's allocated annual OPEB cost (expense) was $15 thousand, adjusted for amortization of the net OPEB obligation plus interest on the prior year obligation amount, less employer contributions. The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are as follows: (in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	$ 13	25%	$ 79
6/30/2015*	$ 13	28%	$ 69
6/30/2014	$ 12	19%	$ 60

* Cost reflected does not include prior period adjustment of ($2) thousand which is included in the ($5) thousand prior period adjustment from Note 10 – Prior Period Adjustment.

Funded Status and Funding Progress

The funded status of the Board's allocation of the plan as of June 30, 2016 and June 30, 2015, were as follows: (in thousands)

FY2016	
Actuarial Accrued Liability (AAL)	$ 138
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 138
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll (Active Plan Members)	$ 288
UAAL as a Percentage of Covered Payroll	48%
ARC as a Percentage of Covered Payroll	4%
FY2015	
Actuarial Accrued Liability (AAL)	$ 124
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UAAL)	$ 124
Funded Ratio (Actuarial Value of Plan Assets/AAL)	-
Covered Payroll (Active Plan Members)	$ 270
UAAL as a Percentage of Covered Payroll	46%
ARC as a Percentage of Covered Payroll	4%

13. PENSION FOOTNOTE

In accordance with GASB Statement 68, Accounting and Financial Reporting for Pensions, employers are required to recognize and report certain amounts associated with their participation in the Public Employees' Retirement System (PERS). Statement 68 includes requirements for employers to record and report the proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions.

Plan Description

The Board and its employees contribute to either the PERS-Defined Benefit Retirement Plan (DBRP) or the PERS-Defined Contribution Retirement Plan (DCRP). Both the DBRP and the DCRP are administered by the Montana Public Employee Retirement Administration (MPERA). The DBRP is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). The DCRP is a multiple employer plan established in July 1, 2002, and governed by Title 19 chapters 2 & 3.

All new members are initially members of the PERS-DBRP and have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP by filing an irrevocable election. Members may not be members of both the defined contribution and defined benefit retirement plans. Through March 2016 for members that choose to join the PERS-DCRP, a percentage of the employer contributions was used to pay down the liability of the PERS-DBRP and is now directed to the members' accounts DBRP Benefits are based on eligibility, years of service and highest average compensation. DCRP benefits are based on the balance in the member's account, which includes the total contributions made, the length of time the funds have remained in the plan and the investment earnings less administrative costs.

Benefits are established by state law and can only be amended by the Legislature. Member rights are immediately vested in their own contributions and attributable income. Members are vested after five years of service for the employer's contributions to individual accounts and the attributable income. Non-vested contributions are forfeited upon termination of employment per 19-3-2117(5), MCA. Such forfeitures are used to cover the administrative expenses of the DCRP. At the plan level for the year ended June 30, 2016, the PERS-DCRP plan member contributions were $10 million; employer contributions were $6 million; and employers did not recognize any pension expense for the defined contribution plan. For the year ended June 30, 2016, plan level non-vested forfeitures for the 289 employers that have participants in the PERS-DCRP totaled $383 thousand. For the year ended June 30, 2015, plan level non-vested forfeitures for the 278 employers that have participants in the PERS-DCRP totaled $323 thousand.

DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. DBRP benefits are based on eligibility, years of service, and highest average compensation.

Employees of the Enterprise Fund may or may not be members the DCRP. Based on confidentiality requirements, PERS is not able to provide detail as to what percentage of the pension liability, pension expense, or pension deferred in/outflows as recorded relates to DBRP versus DCRP members. Therefore, the pension disclosure as follows applies to both DBRP and DCRP, unless specifically stated otherwise.

The PERS financial information is reported in the Public Employees' Retirement Board's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. It is available from the MPERA at 100 North Park, PO Box 200131, Helena MT 59620-0131, 406-444-3154. The MPERA's CAFR information including MPERA stand-alone financial statements and latest actuarial valuation reports can be found on MPERA's web site at http://mpera.mt.gov/index.shtml. The information contained within MPERA's CAFR will only display information in regard to PERS in total and will not display information specific to the Enterprise Fund as an entity. The Enterprise Fund activity is reported within the Department of Commerce GASB 68 employer report as prepared by MPERA and represents 2% of the agency's liability and .002% of the total liability for all employers for both the years ended June 30, 2016 and 2015.

Summary of Benefits - DBRP

Member's highest average compensation (HAC)

Hired prior to July 1, 2011	HAC during any consecutive 36 months;
Hired on or after July 1, 2011	HAC during any consecutive 60 months;
Hired on or after July 1, 2013	110% annual cap on compensation considered as part of a member's HAC.

Eligibility for benefit

Service retirement:

Hired prior to July 1, 2011	Age 60, 5 years of membership service; Age 65, regardless of membership service; or Any age, 30 years of membership service.
Hired on or after July 1, 2011	Age 65, 5 years of membership service; Age 70, regardless of membership service.

Early retirement, actuarially reduced:

Hired prior to July 1, 2011	Age 50, 5 years of membership service; or Any age, 25 years of membership service.
Hired on or after July 1, 2011	Age 55, 5 years of membership service.

Monthly benefit formula

Members hired prior to July 1, 2011

- Less than 25 years of membership service: 1.785% of HAC per year of service credit;
- 25 years of membership service or more: 2% of HAC per year of service credit.

Members hired on or after July 1, 2011

- Less than 10 years of membership service: 1.5% of HAC per year of service credit;
- 10 years or more, but less than 30 years of membership service: 1.785% of HAC per year of service credit;
- 30 years or more of membership service: 2% of HAC per year of service credit.

Guaranteed Annual Benefit Adjustment (GABA)

- 3% for members hired prior to July 1, 2007
- 1.5% for members hired between July 1, 2007 and June 30, 2013
- Members hired on or after July 1, 2013:
  - 1.5% for each year PERS is funded at or above 90%;
  - 1.5% is reduced by 0.1% for each 2% PERS is funded below 90%; and
  - 0% whenever the amortization period for PERS is 40 years or more

After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.

Overview of Contributions

Rates are specified by state law for periodic employer and employee contributions. The State legislature has the authority to establish and amend the statutory contribution rates to the plan.

Currently, plan members are required to contribute 7.90% of member's compensation. Contributions are deducted from each member's salary and remitted by participating employers. By statute, the 7.90% member contributions is temporary and will be decreased to 6.90% on January 1 following actuary valuation results that show the amortization period has dropped below 25 years and would remain below 25 years following the reduction of both the additional employer and additional member contribution rates.

As the employer, the State of Montana employers was required to contribute 8.37% of members' compensation for fiscal year ended June 30, 2016 and 8.27% for fiscal year ended June 30, 2015. Effective July 1, 2014, employer contributions increased 1.0%. Beginning July 1, 2014, employer contributions will increase an additional 0.1% a year over 10 years, through 2024. The employer additional contributions including the 0.27% added in 2007 and 2009, terminates on January 1 following actuary valuation results that show the amortization period of the PERS-DBRP has dropped below 25 years and would remain below 25 years following the reductions of both the additional employer

and member contributions rates. The additional contributions were not terminated on January 1, 2016 or January 1, 2015.

DBRP received other contributions from the Coal Severance Tax income and earnings from the Coal Trust Permanent Trust fund. Effective July 1, 2013, employers are required to make contributions on working retirees' compensation. Member contributions for working retirees are not required. PERS received 100% of the required contributions from the Enterprise Fund in the amount of $24 thousand for the fiscal year ended June 30, 2016 and $23 thousand for the fiscal year ended June 30, 2015. Effective March 2016, the 1% of DCRP employer contributions previously directed to the DBRP are now directed to member accounts.

<u>Actuarial Assumptions - DBRP</u>

The Total Pension Liability as of June 30, 2015, is based on the results of an actuarial valuation date of June 30, 2014, with update procedures to roll forward the total pension liability to June 30, 2015. There were several significant assumptions and other inputs used to measure the Total Pension Liability. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of the last actuarial experience study, dated June 2010 for the six-year period July 1, 2003 to June 30, 2009. Among those assumptions were the following:

• General Wage Growth*	4.00%
*includes Inflation at	3.00%
• Merit Increases	0% to 6%
• Investment Return (net of admin expense)	7.75%
• Admin Expense as % of Payroll	0.27%

- Mortality assumptions among contributing members, terminated vested members, service retired members and beneficiaries based on RP 2000 Combined Employee and Annuitant Mortality Tables projected to 2015 with scale AA.
- Mortality assumptions among Disabled Retirees are based on RP 2000 Combined Employee and Annuitant Mortality Tables with no projections. No future mortality improvement is assumed.
- Postretirement Benefit Increases - Guaranteed Annual Benefit Adjustment (GABA)
  - o 3% for members hired prior to July 1, 2007
  - 1.5% for members hired between July 1, 2007 and June 30, 2013
  - Members hired on or after July 1, 2013:
    - o 1.5% for each year PERS is funded at or above 90%;
    - o 1.5% is reduced by 0.1% for each 2 % PERS is funded below 90%; and
    - o 0% whenever the amortization period for PERS is 40 years or more.

  After the member has completed 12 full months of retirement, the member's benefit increases by the applicable percentage each January, inclusive of other adjustments to the member's benefit.

<u>Discount Rate - DBRP</u>

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating plan members, employers, and non-employer contributing entities will be made based on the Board's funding policy, which establishes the contractually required rates under Montana Code Annotated. The State contributes 0.1% of salaries for local governments and 0.37% for school districts. In addition, the State contributes coal severance tax and interest money from the general fund. The interest is contributed monthly and the severance tax is contributed quarterly.

Based on those assumptions, the System's fiduciary net position was projected to be adequate to make all the projected future benefit payments of current plan members through the year 2123. Therefore, the long-term

expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability. No municipal bond rate was incorporated in the discount rate.

The long-term expected return on pension plan assets is reviewed as part of the regular experience study prepared for the System. The most recent analysis, performed for the period covering fiscal years 2003 through 2009, is outlined in a report dated June 2010, which is located on the MPERA website. Several factors are considered in evaluating the long-term rate of return assumption including rates of return adopted by similar public sector systems, and by using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years. Summarized in the table below are best estimates of the arithmetic real rates of return for each major asset class included in the System's target asset allocation as of June 30, 2015.

Asset Class	Target Asset Allocation	Long-Term Expected Real Rate of Return
Cash Equivalents	2.00%	(0.25%)
Domestic Equity	36.00%	4.55%
Foreign Equity	18.00%	6.10%
Fixed Income	24.00%	1.25%
Private Equity	12.00%	8.00%
Real Estate	8.00%	4.25%

The below table represents the employer Net Position Liability calculated using the discount rate of 7.75%, as well as what the Net Pension Liability would be if it were calculated using a discount rate that is 1.00% lower (6.75%) or 1.00% higher (8.75%) than the current rate.

Net Pension Liability Sensitivity Analysis (in thousands)	1.0% Decrease (6.75%)	Current Discount Rate (7.75%)	1.0% Increase (8.75)
Enterprise Fund	$ 450	$ 291	$ 158

Summary of Significant Accounting Policies - DBRP

DBRP financial statements are prepared using the accrual basis of accounting. For the purposes of measuring the Net Pension Liability, deferred inflows of resources and deferred outflows of resources related to pensions, Pension Expense, information about the fiduciary net position and additions to/deductions from fiduciary net position have been determined on the same accrual basis as they are reported by MPERA. For this purpose, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period they are earned and become measurable. Benefit payments and refunds are recognized in the accounting period when due and payable in accordance with the benefit terms. Expenses are recognized in the period incurred. Investments are reported at fair value. MPERA adheres to all applicable Governmental Accounting Standards Board (GASB) statements.

PERS has a special funding situation in which the State of Montana is legally responsible for making contributions directly to PERS on behalf local government and school district employers. Due to the existence of this special funding

situation, the State is required to report a proportionate share of a local government and school district collective Net Pension Liability that is associated with the non-state employer.

The State of Montana also has a funding situation that is not Special Funding whereby the State General Fund provides contributions from the Coal Severance Tax fund. All employers are required to report the portion of Coal Tax Severance income and earnings attributable to the employer. Contributions provided by the Coal Tax revenue attributable to the Enterprise Fund was $7 thousand for both the fiscal year ended June 30, 2016 and June 30, 2015.

At June 30, 2016, the Enterprise Fund recorded a liability of $292 thousand for its proportionate share of the DBRP Net Pension Liability and $24 thousand for its proportionate share of the pension expense. The Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of June 30, 2014, with update procedures to roll forward the Total Pension Liability to the measurement date of June 30, 2015. The employer's proportion of the Net Position Liability was based on the employer's contributions received by PERS during the measurement period of July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERS' participating employers.

At June 30, 2015, the Enterprise Fund recorded a liability of $245 thousand for its proportionate share of the DBRP Net Pension Liability and $19 thousand for its proportionate share of the pension expense. The Net Pension Liability was measured as of June 30, 2014, and the Total Pension Liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of July 1, 2014. The employer's proportion of the Net Pension Liability was based on the employer's contributions received by PERS during the measurement period July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERS' participating employers.

There were no changes in assumptions or other inputs that affected the measurement of the Total Pension Liability. There have been no changes in benefit terms since the previous measurement date. There were no changes between the measurement date of the collective Net Pension Liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective NPL.

<u>Deferred pension inflow / outflow - DBRP</u>

At June 30, 2016 and June 30, 2015, the employer recognized a deferred outflow of resources of $36 and $23 thousand for the employers contributions, respectively. The pension deferred inflows were $25 and $63 thousand, for June 30, 2016 and 2015 respectively, which related to the net difference between projected and actual earning on pension plan investments.

On the plan level, the impact of experience gains or losses and assumption changes on the TPL are recognized in the collective Pension Expense over the average expected remaining service life of all active and inactive members of the Plan, determined as of the beginning of the measurement period. As of June 30, 2014, this average was 4.36 year, which was round to 4.00 year for recognition purposes. During the measurement year, there were no assumptions changes. There was an experience gain of approximately $11.3 million with approximately $2.8 million of that was recognized in the current year and will be recognized in each of the next three years on a plan level.

The impact of investment gains or losses is recognized over a period of five years. During the measurement year, there was an investment loss of approximately $153.9 at the plan level. Approximately $30.8 million of that was recognized in the current year and will be recognized in each of the next four years by the plan. Unrecognized investment gains from prior periods were approximately $321.9 million of which $80.5 million was recognized as a reduction in the collective Pension Expense of the plan.

The combination of unrecognized investment losses and experience gains this year along with unrecognized net investment gains from prior periods results in a collective Deferred Inflow of Resources as of June 30, 2015 of approximately $126.8 million on the plan level, of which $8.5 million was the difference between expected and actual

experience and $118.3 million was the net difference between projected and actual earnings on pension plan investments.

Amounts reported as deferred outflows of resources related to pensions resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in Pension Expense as follows:

Year ended June 30:	Deferred Outflows/Inflows of Resources (in thousands)
2017	$ (7)
2018	(7)
2019	(7)
2020	6
2021	n/a
Thereafter	n/a

14. NET POSITION

Net Position represents the accumulated net profits of the Enterprise Fund programs. The Net Position for fiscal years ended June 30, 2016 and 2015 include $64 thousand and $38 thousand, respectively, in unrealized appreciation (depreciation) in reporting the fair value of the Enterprise Fund investments.

15. SUBSEQUENT EVENTS

As of October 31, 2016, STIP will no longer participate in the Security Lending Program.

During the board meeting held November 15-16, 2016, the Board approved the issuance of up to $20 million in INTERCAP bonds on March 1, 2017. Up to $8.5 million of the proceeds will be used to satisfy the BAN with the Permanent Coal Tax Trust Fund. Since June 30, 2016, an additional $5.9 million has been recorded as an interentity loan payable to the Permanent Coal Tax Trust Fund. The proceeds funded six INTERCAP loan draws of a local government. For further information, see Note 7 – INTERCAP Program Commitments.

Since June 30, 2016, the Board made additional commitments to fund loans from the INTERCAP loan program in the amount of $28 million.

STATE OF MONTANA BOARD OF INVESTMENTS
ENTERPRISE FUND FINANCIAL STATEMENT

REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

OTHER POST EMPLOYMENT BENEFITS
(See also Financial Statements Note 12 – Other Post-Employment Benefits (OPEB))

As of June 30, 2016, the most recent actuarial valuation available that was completed by the State of Montana was as of January 1, 2015 for the year ending December 31, 2015. The State of Montana finances claims on a pay-as-you-go basis and does not advance fund the OPEB liability. Therefore, the funded ratio remains at 0% at June 30, 2016.

	Schedule of Funding Progress for Montana Board of Investments					
			(in thousands)			
Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability * (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/(C))
1/1/2015	$ 0	$ 138	$ 138	$ 0	$ 288	48%
1/1/2013	0	123	123	0	249	49%
1/1/2011	0	71	71	0	130	55%

PENSION LIABILITY AS AN EMPLOYER ENTITY
(See also Financial Statements Note 13 – Pension Footnote)

RSI regarding the pension information is below. Only two years of data is available at this time. As additional years of data are available, a total of 10 years will be presented.

Schedule of Required Supplementary Information
Schedule of Net Position Liability
As of June 30, 2016 and 2015
(in thousands)

	June 30, 2016	June 30, 2015
Proportion of NPL	.020880%	.019702%
Proportionate share of NPL	$ 291	$ 245
Pensionable payroll	$ 241	$ 220
Proportionate share of NPL as % of pensionable payroll	121.237%	111.436%
Plan fiduciary net position as % of total NPL	78.400%	79.900%

Schedule of Required Supplementary Information
Schedule of Contributions
As of June 30, 2016 and 2015
(in thousands)

	June 30, 2016	June 30, 2015
Contractually required contribution	$ 21	$ 19
Contributions made	(21)	(19)
Contribution deficiency / (excess)	0	$ 0
Share of pensionable payroll	$ 241	$ 220
Contributions as a % of pensionable payroll	8.761%	8.827%

Plan Provision Changes
The following legislative changes were effective January 1, 2016:

Second Retirement Benefit - for PERS
1) Applies to PERS members who return to active service on or after January 1, 2016. Members who retire before January 1, 2016, return to PERS-covered employment, and accumulate less than 2 years of service credit before retiring again:

- refund of member's contributions from second employment plus regular interest (currently 0.25%);
- no service credit for second employment;
- start same benefit amount the month following termination; and
- GABA starts again in the January immediately following second retirement.

2) For members who retire before January 1, 2016, return to PERS-covered employment and accumulate two or more years of service credit before retiring again:

- member receives a recalculated retirement benefit based on laws in effect at second retirement; and,
- GABA starts in the January after receiving recalculated benefit for 12 months.

3) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate less than 5 years of service credit before retiring again:

- refund of member's contributions from second employment plus regular interest (currently 0.25%);
- no service credit for second employment;
- start same benefit amount the month following termination; and,
- GABA starts again in the January immediately following second retirement.

4) For members who retire on or after January 1, 2016, return to PERS-covered employment and accumulate five or more years of service credit before retiring again:

- member receives same retirement benefit as prior to return to service;
- member receives second retirement benefit for second period of service based on laws in effect at second retirement; and
- GABA starts on both benefits in January after member receives original and new benefit for 12 months.

Employer Contributions and the PERS-DCRP
Effective March 2016, contributions previously directed to the PERS-DBRP are now directed to the members' accounts.

Changes in Actuarial Assumptions and Methods
Method and assumptions used in calculations of actuarially determined contributions

The following addition to the actuarial assumption was adopted in 2014 based upon implementation of GASB Statement 68:

Admin Expense as % of Payroll	0.27%

The following changes were adopted in 2013 based on the 2013 Economic Experience study:

General Wage Growth*	4.00%
*Includes inflation at	3.00%
Investment rate of return	7.75%, net of pension plan investment expense, and including inflation

The following Actuarial Assumptions are from the June 2010 Experience Study:

General Wage Growth*	4.25%
*Includes inflation at	3.00%
Merit increase	0% to 7.3%
Investment rate of return	8.00%, net of pension plan investment expense, and including inflation
Asset valuation method	4-year smoothed market
Actuarial cost method	Entry age
Amortization method	Level percentage of pay, open

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Consolidated Unified Investment Program and the Enterprise Fund Program financial statements of the Montana Board of Investments (board) as listed on the table of contents on page i, as of and for the two fiscal years ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the board's financial statements, and have issued our report thereon dated December 16, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the board's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the board's internal control. Accordingly, we do not express an opinion on the effectiveness of the board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify

Room 160 • State Capitol Building • PO Box 201705 • Helena, MT • 59620-1705
Phone (406) 444-3122 • FAX (406) 444-9784 • E-Mail lad@mt.gov

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

December 16, 2016

Board of Investments

Board Response

MONTANA
BOARD OF INVESTMENTS

Department of Commerce

Street Address:
2401 Colonial Drive, 3rd Floor
Helena, MT 59601

Mailing Address:
P.O. Box 200126
Helena, MT 59620-0126

Phone: 406/444-0001
Facsimile: 406/449-6579
Website: www.investmentmt.com

December 23, 2016

RECEIVED
DEC 27 2016
LEGISLATIVE AUDIT DIV.

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 160, State Capitol Building
PO Box 201705
Helena, MT 59620-1705

Dear Mr. Maciver:

I would like to thank the Legislative Audit staff for their assistance and work performed on the Montana Board of Investments' Financial Compliance Audit for the fiscal year ended June 30, 2016. We appreciate the services your staff provide in reviewing the Board's procedures, internal controls, accounting practices, and the accuracy of the financial statements. Your employees are very considerate during the audit and maintain an excellent working relationship with Board staff.

I am available to answer questions or provide further information that you or the Legislative Audit Committee may require.

Sincerely,

David Ewer

David Ewer
Executive Director